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GENERAL DISCUSSION ON TRANSNATIONAL CORPORATIONS IN THE WORLD ECONOMY AND TRENDS IN FOREIGN DIRECT INVESTMENT IN DEVELOPING COUNTRIES

Trends in foreign direct investment

Report of the Secretary-General

SUMMARY

Despite a major decline in the world-wide flows of foreign direct investment in 1991 and in inflows to the developed countries, the growth of inflows to all regions of the developing world increased in absolute and relative terms. This significant feature of foreign-direct-investment flows in 1991 can be attributed to the continued economic uncertainty in the developed countries, the maintenance or resurgence of economic growth and sustained profitability in developing countries, together with the continuing trend towards liberalization. The general trend towards liberalization has also been evident in Central and Eastern Europe whose level of inflows continued to grow. In particular, new policy initiatives such as privatization have increasingly propelled the growth of foreign direct investment in a number of countries in Latin America and Central and Eastern Europe, by expanding the range of new profitable investment opportunities for transnational corporations.

The stagnant global and domestic business environment in 1991 is shown in the declining profitability of investments and the lower share of reinvested earnings as a component of foreign direct investment, particularly in the developed countries. The changing macroeconomic conditions and transnational corporate strategies have also made cross-border mergers and acquisitions less important in the growth of foreign direct investment in the early 1990s.

* E/C.10/1993/1.

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INTRODUCTION

1. At its eighteenth session, the Commission on Transnational Corporations requested the Transnational Corporations and Management Division to prepare a report on trends in foreign direct investment. The present report is in response to that request. It analyses trends in foreign direct investment at the global and regional levels, and examines the changing nature of foreign direct investment during the 1990s.

I. GLOBAL TRENDS

2. A significant feature of foreign-direct-investment flows in 1991 was that the growth of such investment into developing countries continued, leading to an increase in both absolute and relative terms. All developing regions of the world benefited from the increase. The resurgence of growth in several Latin American countries, continued high growth rates in major host countries of Asia and the attractiveness of some countries in Africa for foreign direct investment in natural resources are among the factors that explain this performance. This happened against the backdrop of a decline in world wide investment flows and especially inflows into developed countries (table 1), partly due to recessionary conditions in a number of those countries. (Note that the growth rates in all tables in this report represent compounded growth rate estimates based on a semi-logarithmic equation.) Similarly, foreign direct investment in Central and Eastern Europe continued to increase, largely in response to long-term corporate strategies adopted by transnational corporations in the light of expectations of future growth in that region. The continuing trend towards liberalization in these countries, including the adoption of new policy instruments such as privatization - which have expanded profitable investment opportunities for transnational corporations - is also an explanatory factor. The decline in world-wide investment flows in 1991 represents the first downturn since 1982 and occurred largely because of the recessionary conditions that resulted in a major decrease in outflows from Japan and, to a lesser extent, from Western Europe. The slowdown of economic growth and the declining profitability of investments is reflected in the lower share of reinvested earnings in total investment flows. However, as explained later, despite the decline in flows, foreign direct investment continues to gain in importance as a form of international economic transactions.

3. Investment inflows to developing countries in 1991 increased by more than 20 per cent from 1990, in contrast to the developed countries, whose inflows declined. Developing countries received 25 per cent of all inflows in 1991, which is much higher than their share in the period 1986-1991 and equal to their share in the first half of the 1980s. Strong growth of inflows to East, South and South-east Asia persisted, and there has been a substantial increase to Latin America and the Caribbean as well. Sustained profitability of investments in South and South-east Asia is expected to result in further flows of investment in these countries in the 1990s, particularly from Japan, with the further development of an integrated East Asian production structure. 1/ The resurgence of economic growth and the continuing trend towards liberalization in foreign-direct-investment policies, in combination with

Table 1. Inflows and outflows of foreign direct investment, 1987-1991

Country	1987	1988	1989	1990	1991 a/	1981-1985	1986-1990	1991 a/	1981-1985	1986-1990	1991 a/
	(Billions of dollars)					Share in total (Percentage)			Growth rate (Percentage)		
Developed countries											
Inflows	108	129	165	172	108	74	83	74	0.2	24	-37
Outflows	132	162	203	226	174	98	97	97	3	24	-23
Developing countries											
Inflows	25	30	28	30	36	26	17	25	-4	14	21
Outflows	2	6	10	8	5	2	3	3	33	45	-35
All countries											
Inflows	133	159	193	202	147	100	100	100	-0.9	22	-27
Outflows	135	168	213	234	180	100	100	100	4	24	-23

Sources: United Nations Secretariat, Department of Economic and Social Development, Transnational Corporations and Management Division, based on United Nations Centre on Transnational Corporations, World Investment Directory 1992, vol. I. Asia and the Pacific (United Nations publication, Sales No. E.92.II.A.11); Transnational Corporations and Management Division, World Investment Directory 1992, vol. II. Central and Eastern Europe (United Nations publication, Sales No. E.93.II.A.1); vol. III. Developed Countries; vol. IV. Latin America and the Caribbean; vol. V. Africa and Western Asia; vol. VI. Global (United Nations publication, forthcoming); International Monetary Fund, balance-of-payments tape, retrieved on 16 October 1992, and Organisation for Economic Cooperation and Development (OECD) estimates.

a/ Based on preliminary estimates.

/...

privatization initiatives in a number of countries in the Latin America and the Caribbean region, have made these countries increasingly attractive to transnational corporations. Africa has also experienced increasing level of inflows of foreign direct investment in 199/1, largely driven by the presence of rich natural resources in the region. However, despite the growth of foreign direct investment in all developing country regions in 1991, the concentration of investments flows to developing countries has not changed: the 10 largest host countries continue to receive approximately two thirds of all inflows. Flows of investment to the least developed countries grew by 12 per cent in 1991, to $183 million - less than a quarter of inflows to Hong Kong.

4. The growth of foreign direct investment in Central and Eastern Europe has been sustained during 1991 and the first half of 1992, largely in response to long-term corporate strategies adopted by transnational corporations in the light of expectations of future growth in the region. Such growth of foreign investments has also been facilitated by the enactment of liberal foreign-direct-investment regimes in these countries in expectation of the contributions that transnational corporations can make in the transformation of centrally planned economies to market economies. While the pace of growth appears to be slowing down owing to the steep decline in growth in the region as well as recessionary conditions in the home countries of the major investors, foreign direct investment in that region has increased as a proportion of world-wide foreign direct investment. The flows of investment are, however, unevenly distributed among the countries of that region, as is the case with the developing countries.

5. The decline in the world-wide outflows of foreign direct investment in 1991 to $180 billion, from a level of over $230 billion in 1990, represents the first downturn since 1982. The decline in the level of outflows in 1991 is accounted for mainly by the decline of outflows from Japan (which accounts for more than 30 per cent of the world-wide decline and 50 per cent of the decline from the five major home countries) and Western Europe (which accounts for about 61 per cent of the world-wide decline, largely because of the performance of France, Germany, Netherlands and Sweden), the plateauing of outflows from the United States and the deceleration in the rate of growth of outflows from the United Kingdom since 1990. This may be largely attributed to the difficult economic conditions in these countries which prompted transnational corporations to maintain a cautious stance. Outflows from the five major home countries declined by more than 20 per cent to $124 billion in 1991 from their level in 1990, although they sustained their share of about 68 per cent of world-wide outflows during the 1980s. Preliminary estimates for 1992 show that the rate of decline in outflows from these five major countries has been significantly reduced: their outflows in that year are estimated to be in the region of around $112 million (table 2). The stagnant domestic and global business environment and the declining profitability of investments is reflected in the lower share of reinvested earnings as a component of foreign direct investment, particularly in the developed countries.

Table 2. Outflows of foreign direct investment from the five major home countries, 1987-1991

Country	1987	1988	1989	1990	1991	1992 a/	1981-1985	1986-1990	1991	1981-1985	1986-1990	1991
	(Billions of dollars)						Share in world total (Percentage)			Growth rate (Percentage)		
France	9	14	19	35	24	14 b/	6	10	13	-17	45	-31
Germany	9	13	18	28	21	16 c/	9	9	12	13	27	-24
Japan d/	20	34	44	48	31	16 e/	11	19	17	8	32	-36
United Kingdom	31	37	36	18	19	16 c/	19	17	11	-2	2	7
United States f/	26	14	26	29	29	50 c/	23	13	16	-5	16	-0.4
Total g/	95	112	143	158	124	112	68	68	69	.01	23	-21

Sources: Department of Economic and Social Development, Transnational Corporations and Management Division, based on Transnational Corporations and Management Division World Investment Directory 1992, vol. III. Developed Countries (United Nations publication, forthcoming); IMF, balance-of-payments tape, retrieved on 16 October 1992.

a/ Based on preliminary estimates.

b/ Estimated, based on outflows in the first two quarters of 1992.

c/ Estimated, based on outflows in the first three quarters of 1992.

d/ Not including reinvested earnings.

e/ Estimated, based on outflows in the first quarter of 1992.

f/ Excluding outflows to the finance (except banking), insurance and real estate industries of the Netherlands Antilles. Also excludes currency-translation adjustments.

g/ Totals may not add up, due to rounding.

6. As with 1990, outflows from developing countries declined in 1991 from a period of substantial growth in the late 1980s, particularly by the Asian newly industrializing economies. However, despite their decline in 1991, the share of developing countries in world investment outflows in 1986-1990, at over 3 per cent, is much higher than their 0.7 per cent share in 1970-1975. The estimated stock of foreign direct investment from developing countries was $110 billion by the late 1980s. 2/ Although foreign direct investment from developing countries still remains small on a global scale, these investments are exhibiting rapid growth in terms of both value and number of home countries. The geographical destination of these investments has also widened, to include developed countries where they accounted for some 5 per cent of total inward investment stock in the late 1980s, compared to about 20 per cent in developing countries. This outward foreign direct investment by developing countries is likely to have exerted positive effects on the access to technology, skills and markets for their home economies. 3/

7. Despite the decline in world-wide flows of foreign direct investment in 1991, the world-wide stock of foreign direct investment continued to increase, to reach some $1.9 trillion in book value. The world-wide stock of foreign direct investment is a better measure of the importance of the activities of transnational corporations in the world economy since it represents the capacity to produce output on a continuing basis (see E/C.10/1993/3). The activities of some 35,000 parent transnational corporations and their close to 160,000 foreign affiliates generated approximately $5.5 trillion in world-wide sales in 1990, compared to world exports of goods and services of $3.3 trillion ($2.2 trillion, excluding intra-firm trade). Indeed, the rate of growth of world-wide outflows of foreign direct investment during the period 1986-1990 was three times that of world-wide gross domestic product, almost two and one half times that of world-wide exports and domestic investment and considerably faster than receipts of technology. 4/ By 1991, although the level of world-wide outflows declined, the rate of growth of the world-wide stock still grew faster than the other economic indicators (table 3). Thus, the relative importance of foreign direct investment in the world economy continues to increase.

8. Apart from the increasing relative importance of foreign direct investment in the world economy, the composition of this investment appears to be changing. Overall, the share of foreign direct investment financed through new equity capital and short- and long-term capital increased considerably between the periods 1981-1985 and 1986-1991, at the expense of reinvested earnings whose share declined significantly; but there are considerable variations among different home countries (table 4). The declining importance of reinvested earnings may be due to falling profits during the 1980s in member countries of the Organisation for Economic Cooperation and Development (OECD). It is also significant that the share of reinvested earnings in inward foreign-direct-investment flows of the developed countries became negative in 1990-1991, a period marked by even lower rates of return than during the 1980s. 5/ Generally, the more traditional home countries of foreign direct investment - such as the United Kingdom and the United States - have a higher proportion of reinvested earnings in their investment outflows than the newer home countries. In terms of inflows, reinvested earnings are a considerably more significant component of foreign direct investment in developing countries

Table 3. World-wide foreign direct investment and selected economic indicators, 1991, and growth rates for 1981-1985, 1986-1990 and 1991

Indicator	Value, 1991, (current prices in billions of dollars)	Annual growth rate, 1981-1985 (percentage)	Annual growth rate, 1986-1990 (percentage)	Annual growth rate, 1991 (percentage)
Foreign-direct-investment outflows	180	4	24	-23
Foreign-direct-investment stock	1 900	5	11	11
Sales of transnational corporations	5 500 a/	2 b/	15	..
Current gross domestic product at factor cost	22 300 b/	2	9	-6 c/
Gross domestic investment	5 100 b/	1	10	..
Exports	3 500	2	10	4
Royalties and fees receipts	30 c/	-1	20	-1

Sources: The Department of Economic and Social Development, Transnational Corporations and Management Division, based on IMF, balance-of-payments tape, retrieved on 16 October 1992; World Bank, World Development Report, 1992 (Washington, D.C.); IMF, Direction of Trade Statistics, Yearbook, 1992 and 1988 (Washington, D.C.); Transnational Corporations and Management Division, World Investment Directory, vol. VI. Global Volume (United Nations publication, forthcoming).

a/ For 1990.

b/ For 1982-1985.

c/ Estimate.

Table 4. Share of reinvested earnings in outward foreign-direct-investment flows, 1981-1985, 1986-1990 and 1991 (percentage)

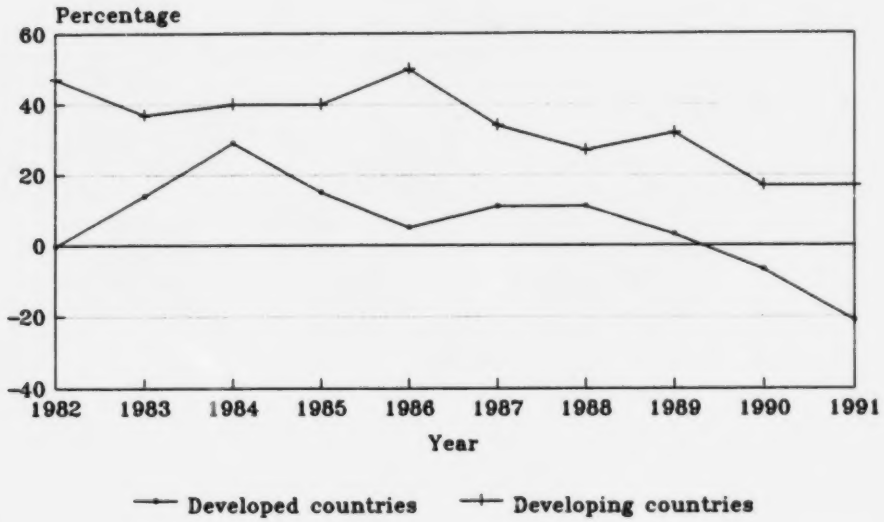
Home country	1981-1985	1986-1990	1991
Australia	23	32	46
Finland	-19	5	..
Germany	5	13	17
Israel	10	33	11
Netherlands	29	21	..
New Zealand	96	43	77
Sweden	25	19	18
Switzerland	61 a/	35	..
United Kingdom	50	45	66
United States	116	71	61
Total, above	60	39	39

Sources: The Department of Economic and Social Development, Transnational Corporations and Management Division, based on United Nations Commission on Transnational Corporations, World Investment Directory 1992, vol. I. Asia and the Pacific (United Nations publication, Sales No. E.92.II.A.11); vols. III-VI (United Nations publication, forthcoming); IMF, balance-of-payments tape, retrieved on 16 October 1992.

a/ For 1983-1984.

than in developed countries (fig. I). This indicates that a larger proportion of foreign direct investment in developing countries is financed from earnings generated within the host country. By contrast, in developed countries, finance for inward foreign direct investment is sourced overwhelmingly from funds mobilized abroad; hence the nature of foreign-direct-investment activity in developed countries has more of a cross-border nature, compared to that in developing countries where foreign direct investment is sustained through profits earned from within. 6/ It is not clear whether the higher proportion of reinvested earnings in total inward foreign direct investment in developing countries is due to higher rates of return or lower rates of profit repatriation. If the profit rates of United States foreign affiliates in developed and developing countries is any indication, significantly higher profit ratios are earned in developing countries at 9 per cent compared to developed countries at 5 per cent. 7/ At any rate, the high share of reinvested earnings suggests that a substantial part of inflows is not financed by foreign savings. On the other hand, in so far as earnings represent a pool of potentially repatriable resources, a higher rate of reinvestment implies the productive use of those resources within host economies.

Figure I. Share of reinvested earnings in inward foreign-direct-investment flows, 1982-1991



Source: Department of Economic and Social Development, Transnational Corporations and Management Division, based on Transnational Corporations and Management Division, World Investment Directory, vol. VI. Global Volume (United Nations publication, forthcoming).

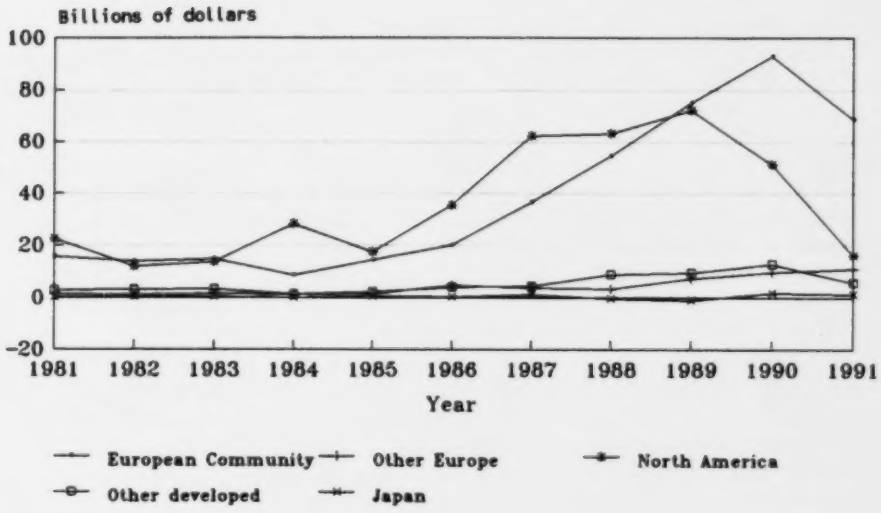
II. REGIONAL TRENDS

A. Developed countries

9. The level of investment outflows from the developed countries declined in 1991, largely due to a significant slow-down of growth, continuing concerns about economic uncertainty in major industrialized countries and structural weaknesses in the financial systems in a number of countries that rendered finance capital more difficult to obtain or available only at increased costs (see fig. II). 8/ These factors made transnational corporations maintain a cautious stance and prompted them to concentrate on improving the efficiency of existing investments, rather than adding to capacity or undertaking new investments. Evidence for this is provided in the much slower pace of growth of mergers and acquisitions as a mode of foreign-direct-investment activity in the early 1990s. The decline in outflows was accounted for largely by Japan (whose outward foreign direct investment declined for the first time since 1983) and Western Europe. The drop in foreign direct investment from Japan alone amounted to $17 billion, accounting for 50 per cent of the decline in foreign-direct-investment outflows from the five major countries. In spite of that, developed countries continue to account for over 97 per cent of world-wide outflows of foreign direct investment. The level of investment inflows to the developed countries similarly declined in 1991 and was due mainly to the United States (whose inflows declined by 75 per cent in 1991 and which accounted for over 52 per cent of the decline in inflows to developed countries), and to a lesser extent the European Community (table 5). Despite the reduced inflows to the European Community in 1991, the share of intra-European Community investment continued to increase. By contrast, the member countries of the European Free Trade Area have experienced a sustained growth of inflows, although at a slackened pace. Meanwhile, inflows in Japan continue to remain at low levels.

10. One explanation for the decline in investment outflows in 1991, as noted above, is the significant reduction in the role of cross-border mergers and acquisitions in the early 1990s. 9/ Even French companies, which have engaged in large-scale overseas acquisitions since 1987, have slowed down these activities sharply since 1990. 10/ The merger wave of the 1980s was in part a result of macroeconomic conditions that affected most developed economies and included the deep recession at the beginning of the decade which, combined with more intense international competition, created substantial excess capacity in many low- and medium-technology industries, such as petroleum and consumer durables. In addition, fairly substantial growth in the availability of credit later in the decade and the valuation of many companies below their asset or break-up values contributed to the merger boom. Many transnational corporations sought to narrow their business base to emphasize core activities, while others saw existing conditions as conducive to expanding into new markets or activities. The goal of a single market within the European Community stimulated many transnational corporations to engage in mergers and acquisitions as a quick means to gain a foothold or to rationalize their European operations in preparation for the single market. 11/ The slowing down of the merger wave coincided with the end of the conditions that had created it. The speculative environment that had been established by the late 1980s

Figure II. Outflows of foreign direct investment from developed regions and country, 1981-1991



Source: Department of Economic and Social Development, Transnational Corporations and Management Division, based on Transnational Corporations and Management Division, World Investment Directory 1993, vol. III. Developed countries (United Nations publication, forthcoming).

Table 5. Inflows of foreign direct investment to the developed countries, by region, 1987-1991, and shares, 1981-1985, 1986-1990 and 1991

Region	1987	1988	1989	1990	1991	1981-1985	1986-1990	1991 a/
	(Billions of dollars)					Share in total (Percentage)		
Western Europe	40	57	86	109	85	42	50	78
of which:								
European Community	36	54	79	99	74	38	45	69
Other Western Europe	4	3	7	10	10	4	5	10
North America	62	63	71	52	16	50	44	15
Other developed regions	6	8	8	11	8	8	6	7
of which: Japan	1	-0.5	-1.1	1.8	1.4	3	0.2	1
Total, above a/	108	129	165	172	108	100	100	100

Source: Department of Economic and Social Development, Transnational Corporations and Management Division, based on Transnational Corporations and Management Division, World Investment Director 1993, vol. III. Developed Countries (United Nations publication, forthcoming); IMF, balance-of-payments tape, retrieved on 16 October 1992, and Organisation for Economic Cooperation and Development estimates.

a/ Totals may not add up, due to rounding.

had led to a number of instances in which acquiring companies overpaid for corporate assets, and slower economic growth contributed to a number of well-publicized corporate failures, such as the Campeau Corporation (Canada). Tighter monetary policies, higher interest rates and higher stock-market valuations made acquisitions more costly. Moreover, the wave of regional restructuring was followed by a period whereby transnational corporations consolidated their positions and concentrated on developing effective structures to manage their newly reorganized networks. Thus, with the changing macroeconomic conditions and corporate strategies, the early 1990s have seen a much slower pace of mergers and acquisitions.

11. There has also been a sharp decline in foreign direct investment from Japan, whose outward investment declined in 1991 for the first time since 1983, as the country's economic slow-down, declining profitability and the collapse of financial markets left Japanese companies with less capital to invest abroad and obliged some to sell foreign assets to cover losses at home. In addition, the drive of Japanese transnational corporations to set up manufacturing bases in North America and the European Community in automobiles, steel and electronics in the late 1980s abated - at least for the time being. 12/

12. Outward investment from most Western European countries also declined in 1991, owing largely to less favourable economic growth prospects which, together with previously accumulated large-scale investment outlays, reduced the incentive of firms to further expand their investments abroad. 13/ Only Belgium, Denmark, Luxembourg, Norway, Portugal and the United Kingdom

experienced a growth of outflows in 1991. In addition, the level of Swiss direct investment abroad is expected to grow with the recognition of the importance of being more international and declining locational advantages of the home market. A number of Swiss firms are actively building up operations abroad; at the end of 1990, the 15 biggest Swiss enterprises employed 684,700 people, or 82 per cent of their total work force, outside Switzerland. 14/

13. A major contributory factor to the lower level of inflows to the developed countries in 1991 is the decline in inflows into the United States by almost 75 per cent in 1991 from the previous year, to $11.5 billion, the lowest since 1983, which is in sharp contrast to the record high of $67.9 billion in 1988. The decline in United States inflows is associated with very slow economic growth in that country, decline in profitability, high start-up costs and large interest payments on debt incurred to finance earlier acquisitions as well as liquidity or excess-capacity problems in the banking, finance and real estate industries where foreign direct investment has been large. 15/ These are among the factors that explain why Japan, the most dynamic source of new inflows into the United States, has not increased its investments in the United States. 16/

14. The inflows to Western Europe also declined to their 1989 level, because of reduced foreign direct investment in the European Community (particularly in Germany, Italy, Netherlands, Spain and the United Kingdom), and the slow down of growth of investments into countries of the European Free Trade Area. The reduced inflows in the European Community may be due to dampened business confidence in the region owing to the recessionary conditions in several countries, aggravated by some uncertainties over the future of the Maastricht Treaty, and the implications that this may have on long-term investment planning by transnational corporations. The fall in new inflows to the Community is also a reflection of the fact that most foreign companies and, in particular, those from Japan, have already established a foothold within the Community, and have shifted their emphasis towards a more rigorous assessment of the role of their existing investments in their long-term strategies. Hence, the early 1990s has seen restructuring efforts undertaken by Japanese companies of their European operations in order to create greater efficiencies and to achieve a better coordinated regional network in Europe, in part through hastening the pace of the localization of their operations and increasing their research-and-development projects within the Community. 17/ However, despite the uncertainties that partly explain reduced inflows in the Community, the general trend towards liberalization of foreign-direct- investment policies in the European Community countries, such as in France, has resulted in many ground-breaking alliances with foreign firms in previously protected State industries. 18/ Privatization as an instrument of economic liberalization has also undoubtedly attracted foreign participation in a number of other European countries. 19/ However, countries have differed in the extent to which foreign investment has actually been encouraged in privatized industries. 20/

15. The sustained growth of foreign direct investment in the European Free Trade Area, although at a slackened pace, may be explained by the trend towards liberalization and deregulation of international capital movements pursuant to the establishment of the European Economic Area which will come into effect at the same time as the Single European Market programme on 1 January 1993, as

well as the anticipation of early inclusion of some of these countries (Austria, Finland, Norway and Sweden) in the European Community. In particular, foreign direct investment in Sweden grew more than three times in 1991 as a result of significant acquisitions by foreign companies and the growth of joint ventures and strategic alliances between domestic and foreign companies. 21/ The increase in foreign business interests in Sweden also reflects a positive response by transnational corporations to the country's efforts to achieve a more competitive and deregulated economy, associated with its commitment to join the European Community by 1995 and to be a party to its economic and monetary union. The adoption of a free market industrial strategy in 1992, including privatization and the lifting of legal restrictions that hamper new foreign investments, is likely to increase foreign direct investment in Sweden in the future. 22/ The trend towards liberalization of foreign investment is also evident in Switzerland where increasing amounts of foreign capital are required to bolster the declining Swiss capital market. It remains to be seen to what extent the rejection of the European Economic Area agreement in December 1992 will affect negatively the attractiveness of Switzerland as an investment location, especially in industries not covered by separate integration agreements (as in the case of insurance).

16. Efforts towards convergence of policies in the European Community and the European Free Trade Area countries to achieve an economic and monetary union in 1997 or 1999 are likely to have a positive influence on foreign direct investment in Europe in the future, through the relaxation of most controls that inhibit its growth, such as the dismantling of monopolies, the liberalization of protected industries and other forms of foreign capital control. 23/

17. The low level of foreign direct investment in Japan has continued in the early 1990s for several reasons. At the macro level, the factors inhibiting inward investment include government preference of licensing over foreign direct investment, an ineffective liberalization process, difficulties in acquisitions and keiretsu relationships. There are also various problems facing individual companies in doing business in Japan, some of which are uniquely rooted in Japanese business practices and some of which are common problems in doing business in a foreign environment (see the box).

Box. Why is foreign direct investment in Japan so low?

In 1990, Japan became the fourteenth largest host country in terms of inward foreign-direct-investment stock - a significant growth from the country's position in 1980 as the twenty-first largest. However, despite the increased importance of Japan as a recipient of foreign direct investment, the country's share in world-wide stock has remained at very low levels. Moreover, the level of inward stock in Japan was still one fifteenth of that of Japanese outward investment stock as of March 1992.

Historically, the Government of Japan has placed emphasis on preserving and improving indigenous technological and managerial capabilities by importing foreign technology through arms-length transactions, primarily in the form of licensing. Even by the 1987-1991 period, the value of technological imports (defined as payments of royalties and license fees to foreign owners of patents, copyrights and other non-financial intangible assets) of Japan was nearly ten times as high as inflows of foreign direct investment. a/ The value of its technological imports was, in most cases, two or three times that of other major developed countries such as France, Germany, the United Kingdom and the United States. A preference for licensing as a mode for the acquisition of technology reduces the demand for foreign direct investment.

The liberalization of inward foreign-direct-investment policies starting in 1967 has not led to any significant growth of such investment in Japan because of the slow implementation process. For example, only industries that have achieved international competitiveness have been gradually liberalized to foreign competition. Although full liberalization was achieved in principle in 1976, foreign direct investment remains closed in four industries - agriculture, forestry and the fishery industry (counted as one), mining, oil exploration and leather and leather products. Until 1990, the Foreign Exchange and Foreign Trade Control Law enabled the Government to restrict inward foreign direct investment on the grounds that the investment might adversely affect similar domestic business activities or the smooth performance of the Japanese economy. The restrictions also played a part in regarding inflows of foreign direct investment.

Difficulties faced by foreign firms in merger-and-acquisition activities in Japan also constitute another reason for the low level of inward foreign direct investment. a/ Hostile take-overs (take-over bid system) were institutionally difficult until 1990, because prior notification was required. Thus, targeted companies could prepare in time to defend themselves from an impending take-over. Apart from this factor, the practice of shareholdings owned by financial companies and keiretsu firms, lifetime employment and the seniority system may have made mergers and acquisitions difficult for foreign firms.

Certain aspects of keiretsu relationships promote preferential group trade and negatively affect foreign direct investment in Japan. c/ Anti-competitive and exclusive business practices decrease the transparency of business transactions and place non-keiretsu firms and, in particular, foreign firms in a disadvantageous position. Other problems inhibiting inward foreign direct investment at a company level include, among others, high costs of doing business and staffing problems, as well as the complex, multilayered distribution system. d/ These problems are more profound in Japan than in other countries since they are related to the uniqueness of Japanese business practices.

Despite the difficulties, there are signs that inflows of foreign direct investment into Japan are increasing. Inflows in the first half of 1992 were almost twice as high as in the corresponding period in 1991. e/ It also seems that increasing merger-and-acquisition activity by foreign firms is behind the increase in inflows, prompted by declining profitability of Japanese firms. f/ Not only can foreign firms now resort to take-overs more easily, they can also purchase Japanese firms at less than one half of the cost of acquisition in 1990. The decline in Japanese real estate and stock prices over the past two years and the restructuring of Japanese industries have provided foreign firms with their best opportunity in many years to set up, expand or acquire business in Japan. Moreover, with the recent government commitment to promote investment inflows, the potential of Japan becoming a more significant host country for foreign direct investment has become stronger. g/

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a/ Data on payments of royalties and license fees are from the International Monetary Fund balance-of-payments tape retrieved in November 1992. Payments include payment to both affiliated and non-affiliated foreigners by domestic firms and transnational corporations.

b/ See Robert Z. Lawrence, "Why is foreign direct investment in Japan so low?", Transnational Corporations (1 January 1993).

c/ Ibid.

d/ Quoted in "Trade and investment in Japan: the current environment", Center for Industrial and Technological Cooperation News (Tokyo, Japan External Trade Organisation, September 1992), p. 1; Ministry of International Trade and Industry, Gaishi-kei Kigyo no Doko. The 25th Survey (Tokyo, Ministry of Finance Printing Bureau, April 1992), table 60, pp. 166-167.

e/ Nihon Keizai Shimbun (19 August 1992), p. 5. Data on inward foreign direct investment here are based on notification basis (ex post facto report since April 1991) reported by the Ministry of Finance. Since the data exclude withdrawals and cancellations of foreign direct investment after reporting, they are normally larger than the data on inflows reported in the balance of payments.

f/ In the first half of 1992, the number of members and acquisitions of Japanese companies with overseas corporations more than doubled to 16 transactions, compared to the previous year. The number of acquisition by United States companies rose to 10 from 3 in the same period last year, while those from Europe halved to two deals. The value of the transactions, however, fell 43 per cent to $105 million in the first half of 1992. See also Emiko Terazono, "Foreigners find Japanese companies attractive", Financial Times (2 July 1992).

g/ "Japan's trade surpluses: the long-term solution", The Economist (13 June 1992); and "Japan mulls tax incentives for foreign-based firms", The Wall Street Journal (9 September 1991).

18. Despite the decline in inflows of foreign direct investment into the developed market economies, these countries accounted for almost three quarters of world-wide inflows in 1991. The "triad", consisting of the European Community, Japan and the United States, accounted for approximately three fifths of world-wide inflows, a proportion much below its share of 70 per cent during the decade of the 1980s, and 86 per cent of outflows, compared to its share of 81 per cent during the 1980s. The triad has therefore become much more important as a home region of foreign direct investment in 1991, while its significance as a host region has diminished. The expanded triad - consisting of Western Europe, North America and Japan - on the other hand, accounted for 70 per cent and 96 per cent of global inflows and outflows in 1991, respectively.

B. Developing countries

19. Except for 1989, developing countries have experienced a consistent increase in the absolute level of inward investment since 1984. By 1991, while inflows to the developed countries declined, the level of inflows to the developing countries reached a total of $36 billion, representing over 20 per cent growth over the level in 1990. The share of developing countries in world-wide inflows in 1991 reached one quarter, which is much higher than their share in the period 1986-1991 and equal to their share in the first half of the 1980s. Such growth of inflows has been experienced by all developing regions and is associated with continued strong economic growth in Asia and the Pacific and the resurgence of growth in a number of Latin American countries (Brazil, Ecuador, Mexico and Paraguay), combined with the continuing trend towards liberalization in a wide spectrum of developing countries. Although East, South and South-East Asia continues to account for over half of the inflows to developing countries, the region's share in total flows to developing countries has declined from 1990. On the other hand, the level of inflows experienced by Latin America and the Caribbean has grown significantly in 1991, largely as a result of improvements in macroeconomic performance, combined with new policy initiatives that increased prospects for new profitable investment opportunities in the region. Flows to Africa increased by 45 per cent in 1991, while those to the least developed countries rose marginally and accounted for the meager share of half of 1 per cent of total inflows to developing countries in 1991. In 1992, foreign direct investment into developing countries may well have increased further, to reach some $40 billion. 24/

20. Among developing countries, a large proportion of investment inflows continues to be directed to a small number of countries (table 6) that have locational advantages attractive to transnational corporations. However, there is a discernible trend towards declining geographical concentration of investments in the 10 largest host countries (from over 70 per cent in the period 1981-1985 to 65 per cent in the period 1986-1990). Hence, the increasing inflows of foreign direct investment in developing countries have been also accompanied by lesser geographical concentration.

Table 6. Inflows of foreign direct investment to developing countries, by region, 1981-1985, 1986-1990 and 1991

Country	1981-1985	1986-1990	1991	1981-1985	1986-1990	1991	1981-1985	1986-1990	1991
	Average (Billions of dollars)			Share in total (Percentage)			Growth rate (Percentage)		
All countries	50.00	153.00	147.00	100.00	100.00	100.00	-1.00	22.00	-27.00
Developing countries	13.00	26.00	36.00	26.00	17.00	25.00	-4.00	14.00	21.00
Africa	2.00	3.00	3.00	3.00	2.00	2.00	12.00	6.00	45.00
East, South and South-East Asia	5.00	13.00	19.00	10.00	9.00	13.00	-3.00	21.00	12.00
Latin America and the Caribbean	6.00	9.00	13.00	12.00	6.00	9.00	-10.00	9.00	36.00
Oceania	0.10	0.10	0.20	0.30	0.10	0.10	-2.00	27.00	-26.00
West Asia	0.40	0.50	0.90	1.00	0.30	1.00	7.00	27.00	2.00
Other a/	0.03	0.05	0.05	0.10	0.03	0.03	-10.00	103.00	..
Least developed countries	0.20	0.10	0.20	0.30	0.10	0.10	-0.40	1.00	12.00
Ten largest host developing economies	9.00 b/	17.00 c/	24.00 d/	18.00 b/	11.00 c/	16.00 d/	-4.00 b/	8.00 c/	28.00 d/

Sources: Department of Economic and Social Development, Transnational Corporations and Management Division, based on United Nations Centre on Transnational Corporations, World Investment Director 1992, vol. I, Asia and the Pacific (United Nations publication, Sales No. E.92.II.A.11); vol. III, Developed Countries; vol. IV, Latin America and the Caribbean; vol. V, Africa and Western Asia; vol. VI, Global Volume (United Nations publication, forthcoming); IMF, balance-of-payment tape, retrieved on 16 October 1992 and OECD estimates.

a/ Malta and Yugoslavia.

b/ Argentina, Brazil, China, Colombia, Egypt, Hong Kong, Malaysia, Mexico, Nigeria and Singapore.

c/ Argentina, Brazil, China, Egypt, Hong Kong, Mexico, Nigeria, Singapore, Taiwan Province of China and Thailand.

d/ Argentina, Brazil, China, Indonesia, Republic of Korea, Malaysia, Mexico, Taiwan Province of China, Thailand and Venezuela.

21. Despite the decline in 1991, outflows from developing countries grew almost twice as fast as those of the developed countries during the period 1986-1990. Countries from the Asia and Pacific region account for an overwhelming proportion of these outflows. However, the share of developing countries in world-wide investment outflows still remains small.

22. The implementation of the single European market at the end of 1992 may have an important bearing on trade and foreign direct investment in developing countries in the 1990s. The concern of many developing countries is that the implementation of the single market programme may have an adverse effect on their investment inflows as well as trade, owing to internal pressures that may cause the Community to become more protectionist. For example, although full economic integration is primarily concerned with the removal of internal non-tariff barriers, the re-allocation of factors of production induced by market integration may increase the competitiveness of European-based firms and, as a result, impose adjustment costs on less-efficient producers in developing countries, particularly if the Community implements policies designed to promote European sourcing. Hence, the implementation of European sourcing policies and rules of origin might result in trade and investment diversion to the Community away from developing countries. Similarly, the harmonization of technical, health and safety standards may raise the export requirements of member States to the detriment of developing countries. More generally, the expectation for favourable growth associated with full integration could increase the attractiveness of the Community as a location for foreign direct investment from all countries, to the detriment of developing countries. 25/

23. However, larger-scale diversion of trade and investment from developing countries on account of the single market programme appears unlikely, in part since such investments are industry- and host-country specific, prompted largely by the need to gain access to rich natural resources, the need to supply large and rapidly growing domestic markets or to take advantage of lower production costs for exports. Although the changing structure of production associated with full economic integration and growth is expected to alter the basis of interdependence between the Community and developing countries, this is unlikely to affect in a substantial way resource-based production in developing countries, given the low elasticities of demand for primary products. Similarly, full European integration is not likely to affect the underlying rationale for import-substituting investments in developing countries in the long-run, even though there may be some diversion of foreign direct investment in the short-run. Export-oriented foreign direct investment in developing countries is also not likely to be affected, given the minimal amount of these investments that is made to serve the European Community. 26/ In any case, the objectives of the completion of the single market are geared more towards improving the competitiveness of the European Community in world markets, rather than with protectionism from outside competition. Indeed, the trend of inflows of foreign direct investment into developing countries in the period since the mid-1980s, when the European Community announced its programme to complete the formation of the single market in 1992, shows no negative impact. 27/ This finding confirms another recent study which concluded that, given other determinants of such investments, the potential effects of 1992 on foreign direct investment in developing countries are relatively unimportant. 28/ On the contrary, increased economic growth likely to result

from the single market may increase available resources to sustain growth of outward foreign direct investment from the member countries and may increase their demand for goods produced by their transnational corporations in developing countries, leading to an increase in both trade and investments. The changing structure of production associated with full economic integration and growth is expected to result in the greater importance of trade and foreign direct investment in manufactured products in developing countries as opposed to primary products, with the likelihood that increasing amounts of less skill- and capital- and technology-intensive stages of industrial production may be transferred to these countries from the Community. 29/ Even foreign direct investment by services transnational corporations in developing countries is expected to increase with the acceleration of growth rates in the Community. The precise implications for trade and foreign-direct-investment activity in developing countries of the single European market will have to depend on the outcome of certain crucial determinants such as the external trade policies adopted, including rules of origin, and the harmonization of technical, health and safety standards, among others. Of these determinants, trade policies of the Community exert the greatest impact on the functioning of transnational corporate activities in developing countries.

1. Asia and the Pacific

24. Investment inflows to Asia and the Pacific continued to increase in 1991, to reach over $19 billion (an increase of 12 per cent over the previous year), in response to strong economic growth. 30/ The newly industrializing economies and Indonesia, Malaysia and Thailand accounted for about three quarters of these inflows. The favourable domestic conditions in Indonesia, Malaysia and Thailand have attracted transnational corporations to these countries, resulting in their increased share of inflows to all countries in Asia and the Pacific. Lower production costs and the liberalization of the foreign-direct-investment regime in India have also resulted in a notable increase in inflows to that country. However, China emerged as the single largest recipient of investment inflows, attractive because of both the size of its domestic market and low labour costs. There is also an emerging trend in some countries of the region - such as in Malaysia and Thailand - to improve the quality of foreign direct investment, such as to increase domestic linkages and encourage investments in technologically advanced industries. Japan continues to be a significant investor in the region, where the profitability of investments is higher than in the developed countries. Investment outflows from Asia fell sharply in 1991, primarily accounted for by Taiwan Province of China. Nevertheless, the Republic of Korea and Taiwan Province of China continue to be net exporters of foreign direct investment. The increasingly intra-regional nature of these investments, as of the other home countries in the region, has strengthened regional economic interdependence.

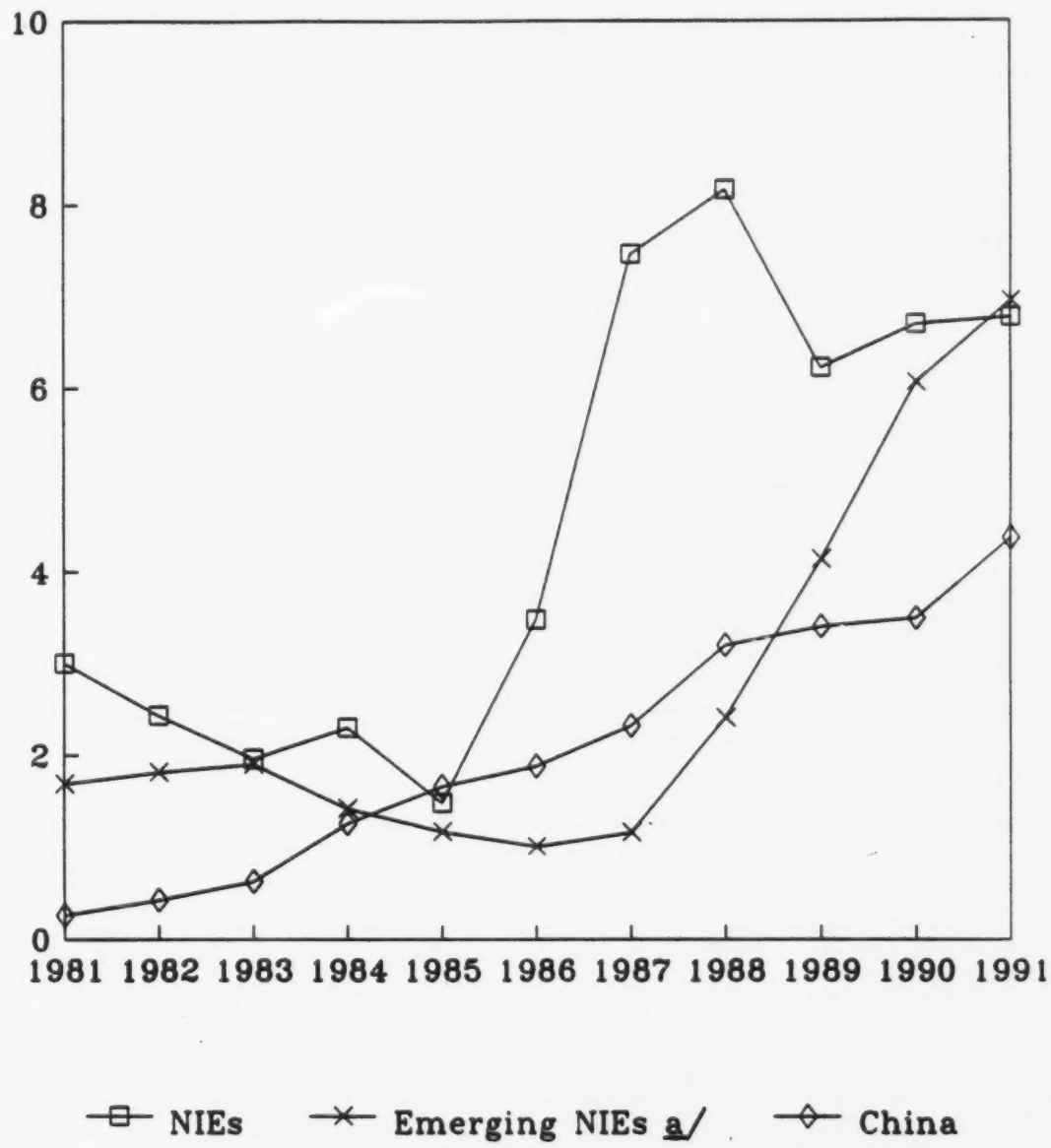
25. Investment inflows in Asia and the Pacific have continued to grow, reflecting strong economic performance and the associated increase in consumer spending and growth of demand, reinforcing the large domestic markets of a number of countries in the region. In addition, the availability of skilled labour and low production costs continue to encourage transnational corporations (especially those from the newly industrializing economies) to use the region as a production base from which to supply home markets and the rest

of the world. Natural-resource industries of the newly opening economies in Asia (in particular Viet Nam and, to a lesser extent, Cambodia) have attracted investments from several transnational corporations from Japan and the newly industrializing economies. 31/ Hence, the geographical distribution of investment inflows in the region has changed significantly in the course of the 1980s (fig. III). The fall in the share of inflows in Asia and the Pacific accounted for by the newly industrializing economies since 1987 is accompanied by a rise in the share received by Indonesia, Malaysia and Thailand. Although the newly industrializing economies continue to be significant recipients of investment flows, rising labour costs in these economies have led some transnational corporations to seek investment locations in China and South Asia where production costs are comparatively lower. For instance, the liberalization of the foreign-direct-investment regime in India has resulted in a significant increase in investments there; the value of foreign equity in joint ventures approved in the first seven months of 1992, at slightly over $1 billion, was almost three times as large as that for the whole of 1991, at $360 million. 32/

26. Another change in the geographical composition of investment flows in Asia and the Pacific is the emergence of China as one of the largest recipients of investment inflows among all countries in the region during 1990-1991. Indeed, in 1991, China became the largest recipient of inflows among all developing countries. There are indications that this trend is likely to continue in 1992 and beyond: investment on a contract basis during the first two quarters of 1992 was about $15 billion, in comparison to $12 billion for the whole of 1991. 33/ The principal reasons for the increase in inflows to China are the same as those for the region as a whole: high rates of growth, coupled with a large domestic market and rising incomes. 34/ With a large supply of labour at low costs, China is also viewed as a low-cost production base for goods to be exported abroad. A more liberal attitude towards foreign direct investment in the services sector, steps towards the normalization of China's relationship with some of its neighbours (Indonesia, Singapore and Taiwan Province of China), coupled with the renewal of the most-favoured-nation status with the United States have also contributed to the growth of foreign direct investment. The present increase in investment inflows also suggests that the impact of the Tiananmen Square incident on the decisions of companies on whether or not to invest in China is wearing off. 35/ For example, Motorola has renewed plans to invest in a manufacturing plant of semiconductors and communications equipment for supplying mostly the domestic market, a project that was suspended in 1989. 36/

Figure III. Foreign-direct-investment flows to Asia, 1981-1991

(Billions of dollars)



Source: Department of Economic and Social Development, Transnational Corporations and Management Division, based on United Nations Centre on Transnational Corporations, World Investment Directory 1992, vol. I. Asia and the Pacific (United Nations publication, Sales No. E.92.II.A.11) and Transnational Corporations and Management Division, foreign-direct-investment database.

Note: NIE = newly industrializing economy.

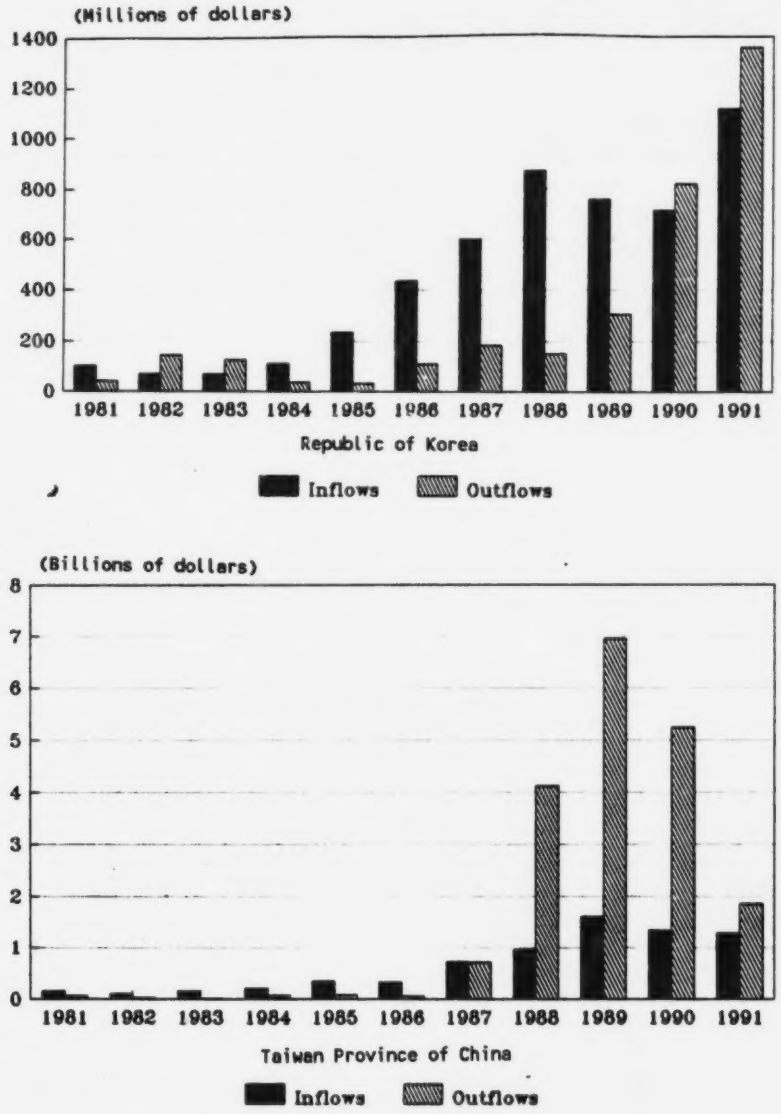
a/ Indonesia, Malaysia, Thailand.

27. The sectoral composition of foreign direct investment in the region is also likely to change rapidly. Malaysia, for example, has shifted its policy focus towards attracting investments in technology-intensive industries, such as semiconductors or petrochemicals, in combination with those that are less import-intensive, and use the host country's natural resources. The shift of policy towards encouraging investments in technology-intensive industries is geared towards increasing the competitiveness of technologically sophisticated industries. More specifically, in the case of Malaysia, the objectives of the policy shift are to broaden and deepen the industrial base; to promote capital-intensive and technologically sophisticated industries in view of the low rate of unemployment; to develop intermediate and capital-goods industries; and to promote linkages between foreign and domestic companies. To meet these objectives, revisions in the tax-incentive system aimed at encouraging investments in higher value-added industries and at enhancing export capabilities of foreign firms have been introduced. Investments in the services sector are also encouraged. There have also been proposals to offer incentives to affiliates to increase linkages with domestic producers via local procurement, staff training and transfer of technology. 37/ Some industrial upgrading towards more technologically intensive investments are already being undertaken by foreign oil and gas and some computer firms in Thailand.

28. Japan continues to be a major source of foreign direct investment for Asia and the Pacific despite a fall in the level of that country's outward investment to the region in 1991. The profitability of its investments in Asia is likely to encourage future Japanese investments in the region. 38/ Faced with the rising cost of capital at home, Japanese transnational corporations might increasingly turn to domestic markets of host countries for raising capital to finance new investments, or to expand existing investments. 39/ This raises the question of the extent to which allowing foreign participation in domestic equity markets will influence both the amount and mode of foreign direct investment in the region.

29. Investment outflows from East, South and South-East Asia fell by a third in 1991, from the level reached in the previous year. The fall reflects primarily a significant decline of about 65 per cent in outflows from Taiwan Province of China between 1990 and 1991, in contrast with other home countries whose investments continued to rise. Although investment outflows from Taiwan Province of China decreased considerably in 1991, they were more than 30 times higher than average outflows during the first half of the 1980s. That economy also remains a net exporter of foreign direct investment, together with the Republic of Korea (fig. IV). The burst of outward investment during 1988-1990 in labour-intensive industries by transnational corporations from Taiwan Province of China was mainly in response to rising production costs and labour shortages at home. Large capital investments were made to establish new production facilities abroad (land acquisition, purchase of buildings, equipment etc.), particularly in the form of manufacturing plants in members of the Association of South-East Asian Nations (ASEAN) and China. In the future, investment outflows are likely to continue on an upward path. The principal motivation is the continuing desire to acquire technology and establish marketing and distribution channels in developed countries and to take advantage of expanding consumer markets and lower production costs in developing countries. 40/

Figure IV. Republic of Korea and Taiwan Province of China: foreign direct investment, 1981-1991



Source: Department of Economic and Social Development, Transnational Corporations and Management Division, based on United Nations Centre on Transnational Corporations, World Investment Directory 1992, vol. I. Asia and the Pacific (United Nations publication, Sales No. E.92.II.A.11) and Transnational Corporations and Management Division, foreign-direct-investment database.

30. By contrast, outflows from the other Asian newly industrializing economies such as the Republic of Korea and Singapore continued to grow in 1991. 41/ In addition, transnational corporations from a number of other Asian countries, such as Thailand - which only a few years ago did not have any investments abroad - are increasingly shifting assembly and other labour-intensive operations to neighbouring countries that have lower labour costs. 42/ Therefore, in spite of the fall in the overall level of investment outflows from East, South and South-East Asia in 1991, a network of investment and trade in manufactured goods between economies (especially Hong Kong, Malaysia, Singapore, Taiwan Province of China and Thailand) has been fostered (table 7). As a result, there is a growing interdependence of investments between China, East Asia and some member States of ASEAN, while South Asia has yet to play a major intra-regional role.

Table 7. Intra- and extraregional investment inflows, as reported by host economies in Asia, 1985-1987 and 1988-1990

(Percentage share of total)

Host economy	Intra-regional		of which: Japan		Extraregional	
	1985-1987	1988-1990	1985-1987	1988-1990	1985-1987	1988-1990
Bangladesh	10	11	6	4	90	89
China	77	72	12	12	23	28
India a/	11	8	10	5	89	92
Indonesia	51	50	31	18	49	50
Malaysia	38	67	19	25	62	33
Pakistan	1	2	1	2	99	98
Philippines	21	23	14	14	79	77
Republic of Korea	58	52	53	49	29	48
Singapore b/	10	47 c/	22	35 c/	90	53 c/
Taiwan Province of China	40	47	29	32	60	53
Thailand	55	77	38	45	45	23

Sources: Department of Economic and Social Development, Transnational Corporations and Management Division, based on United Nations Centre on Transnational Corporations, World Investment Directory 1992, vol. I, Asia and the Pacific (United Nations publication, Sales No. E.92.II.A.11) and Transnational Corporations and Management Division foreign-direct-investment database.

a/ Excludes foreign direct investments by non-resident Indians.

b/ Flows estimated as the difference in year-end values of foreign direct equity investments in two consecutive years.

c/ For 1988-1989.

2. Latin America and the Caribbean

31. In the Latin America and Caribbean region, the increase in average investment inflows since 1988 continued during 1991 and, apparently, 1992. 43/ The principal factors behind this increase seem to have been an improvement in the macroeconomic performance of several Latin American economies as a result of a successful enforcement of fiscal discipline, the restructuring of the external debt with private-sector creditors as well as the continuing trend towards economic liberalization in the context of which a number of countries also established stable and credible frameworks conducive to foreign direct investment. Furthermore, specific measures such as debt-equity swaps and privatization were instrumental in promoting large amounts of investment inflows by expanding the range of profitable investment opportunities in the region, with the latter becoming a relatively more important measure in promoting foreign direct investment in the early 1990s. However, despite major changes in government policies among many countries of the region, inflows continue to be highly concentrated in a handful of countries, primarily Argentina, Brazil, Chile, Mexico and, as of 1991, Venezuela. 44/

32. The trend towards liberalization of foreign-direct-investment policies in Latin America, evident since the late 1980s, particularly in the natural resources and services sectors, has enabled transnational corporations to engage in new activities in the region, while those in the manufacturing sector have had to modernize production to survive competition from imports due to trade liberalization, and to become internationally competitive. Overall, there has been a tendency for the rate of increase in new investment inflows in the natural resource and service sectors to surpass that of the manufacturing sector, where the lion's share of the accumulated stock of foreign direct investment in the region is found.

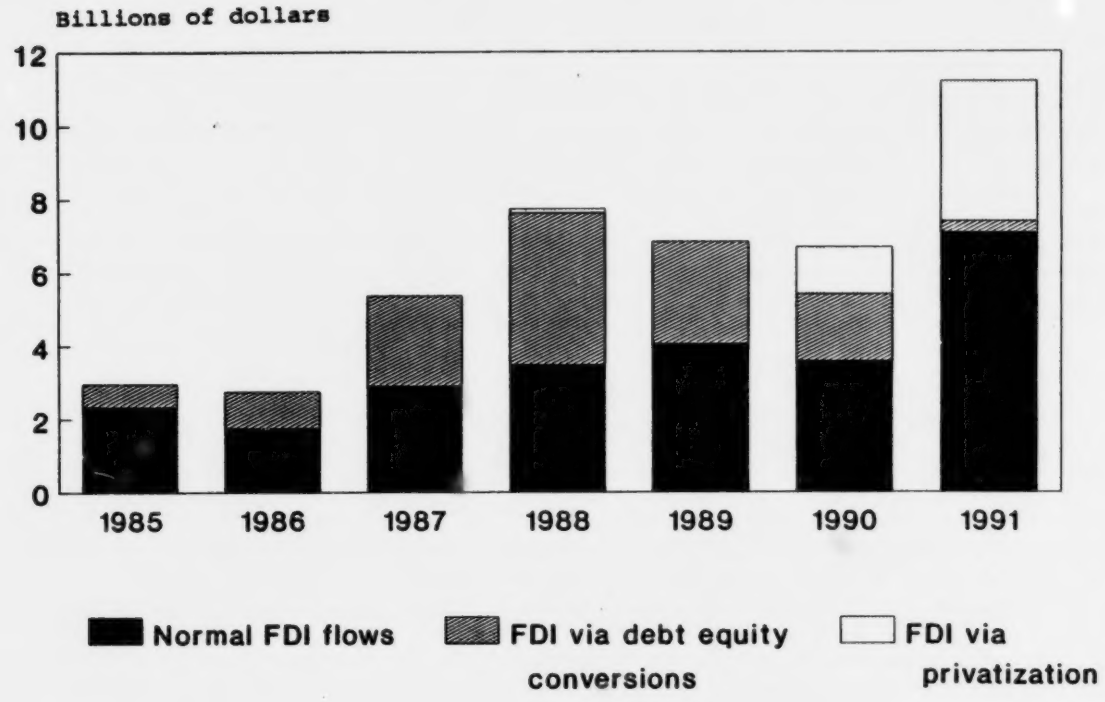
33. Countries of the region differ with respect to which type of foreign direct investment has been more important in explaining the increase in recent years. In Mexico, for example, recent foreign direct investment has been directed towards the restructuring of the motor vehicle industry, although the entrance of new transnational corporations in a number of services industries (tourism, telecommunications etc.) has also been significant. 45/ Chile provides a clear example of foreign direct investment in new export activities in natural resources (forestry, fish products, gold mining etc.), as well as large-scale expansion of traditional mining activities (copper) and in liberalized services (finance, airlines, telecommunications etc.). 46/ Recent increases in investment inflows in Argentina and Venezuela are also very much concentrated in liberalized service industries (telecommunications, air transport). 47/ By contrast, the limited inflows directed to Brazil in recent years have been geared towards the modernization of the manufacturing operations of foreign affiliates already operating in the country in order to face the import competition created by the new trade liberalization scheme. 48/ Hence, although various countries of the region have instituted many common policy instruments geared to attract increasing amounts of foreign direct investment, the degrees of success and the emerging patterns vary across countries.

34. In terms of policy perspectives, the general trend towards simplifying authorization and registration procedures; the lifting or reducing of sectoral

restrictions on foreign direct investment; the easing of limits on profit remittances, capital repatriation and technology payments; and the improving of the protection of intellectual property has continued. In addition, a significant incentive for encouraging foreign direct investment in the region, particularly to the larger and intermediate-sized countries, has been provided by programmes for the conversion of external debt obligations into investments, and the programmes for the privatization of State enterprises. However, there is an important transition taking place with respect to the relative importance of the policy instruments in the 1990s. As figure V suggests, during the late 1980s the policy instrument most utilized in major Latin American countries was debt-equity conversion programmes, in which external debt obligations are converted, directly or through intermediaries, into foreign direct investment. 49/ By the beginning of the 1990s, this instrument was losing relevance in many countries and was increasingly replaced by new programmes for the privatization of State companies, most notably in telecommunications and airlines, which offered new investment opportunities. 50/ In some countries, such as in Jamaica, some 90 per cent of the State-owned enterprises had been subject to privatization (making it the most heavily privatized developing country), of which almost one quarter involved foreign participation. Some 40 per cent of foreign investment inflows into Jamaica may be accounted for by the sale of privatized State enterprises to foreign enterprises. 51/

35. Although most of the major privatizations that took place in 1990-1991 involved primarily national private groups, there were significant transactions involving foreign investors, most notably in the cases of the telecommunications industry in Argentina, Mexico and Venezuela and in air transport in Argentina and Venezuela. It is noteworthy that all privatizations in the telecommunications and air-transport industries, except telecommunications in Mexico, involved foreign capital from Spain, particularly from the State-owned Telefónica de España and Iberia. In addition, in a limited number of cases, such as in Argentina, new foreign direct investment in 1990 and 1991 occurred largely through the simultaneous use of debt-equity swaps and privatization programmes - i.e., the purchase of State enterprises undergoing privatization was financed through the conversion of external debt obligations. Thus, special programmes continue to be responsible for much of the new inflows of investment to Latin America and the Caribbean, with the privatization of State enterprises assuming greater importance. An important consequence of this development was that new investment inflows tended to be in the form of acquiring existing assets as opposed to greenfield investments.

Figure V. Latin America: a/ foreign-direct-investment flows, 1985-1991



Sources: Department of Economic and Social Development, Transnational Corporations and Management Division, based on Transnational Corporations amd Management Division, World Investment Directory 1992, vol. IV. Latin America and the Caribbean (United Nations publication, forthcoming).

a/ Argentina, Brazil, Chile, Mexico and Venezuela only.

36. Whether the Latin America and Caribbean region will attract an increasing share of foreign direct investment in developing countries in the years to come remains to be seen and is likely to depend on the outcome of some crucial determinants. One of these has to do with the extent to which Brazil, once the largest recipient of foreign direct investment in the region, succeeds in stabilizing its economy and, as a result, may receive an increasing stream of investment. Another is the extent to which the North America Free Trade Agreement generates investment inflows to the region in preference to other regions. At the same time, there are some indications that, although the North America Free Trade Agreement is most likely to be beneficial for both Mexico and the United States (especially if newcomers to Mexico from countries other than the United States are obliged to meet rules of origin), other countries might be adversely affected by trade and foreign-direct-investment diversions. 52/ The extent of such a diversion (if it is to take place on a noticeable scale) will depend heavily on the degree of discriminatory access to the United States market. Clearly, however, Mexico has become more attractive as a low-cost sourcing base for United States transnational corporations and as a location for investors seeking access to the North American market.

37. Intra-regional investments also play a role in determining overall investment flows to a region. Such investments are an important component of investment inflows in a number of Asia and Pacific countries, prompted by the surge of investment not only from Japan but also from other countries of the region; 53/ by comparison, intra-regional foreign direct investment in Latin America is much less important. This is largely owing to the smaller size of aggregate outflows from the region, which over the period 1981-1991 amounted to $3.5 billion and represents only 11 per cent of the level of outflows from the Asia and the Pacific. 54/ These outflows emerged primarily from the larger economies of the region, such as those of Argentina, Brazil, Colombia, Mexico, Peru and Venezuela, and are concentrated in labour-intensive manufacturing and services (particularly banking and finance, real estate and wholesale and retail trade). 55/

38. Finally, it should be mentioned that the Latin America and Caribbean region has not benefited much from the growth of foreign direct investment from Japan and the Asian newly industrializing economies. As of fiscal year 1991, only around 7 per cent of foreign direct investment by Japanese transnational corporations in the manufacturing sector and less than 13 per cent of investment in all sectors had been directed to Latin America. Furthermore, although sales by Japanese manufacturing affiliates operating in Latin America rose from $2 billion to over $6 billion between 1982 and 1990, the region's share of global manufacturing sales of Japanese transnational corporations declined from 8 per cent to just over 3 per cent. 56/ The limited amount of Japanese investment directed to Latin America and the Caribbean in recent years is concentrated in a few special activities, the most significant being the maquiladora and motor-vehicle industries in Mexico, some mining, forestry and fishing projects in Chile, and Venezuela, where Japanese foreign direct investment accounts for some 3-4 per cent of total foreign direct investment. Hence, the region does not seem to play a strategic role in Japanese outward foreign direct investment, a fact that may also partly have something to do with the long geographical distance between Japan and the region and the psychic distance in terms of culture and language. Even in the Brazilian manufacturing sector, where the Japanese presence has been most evident

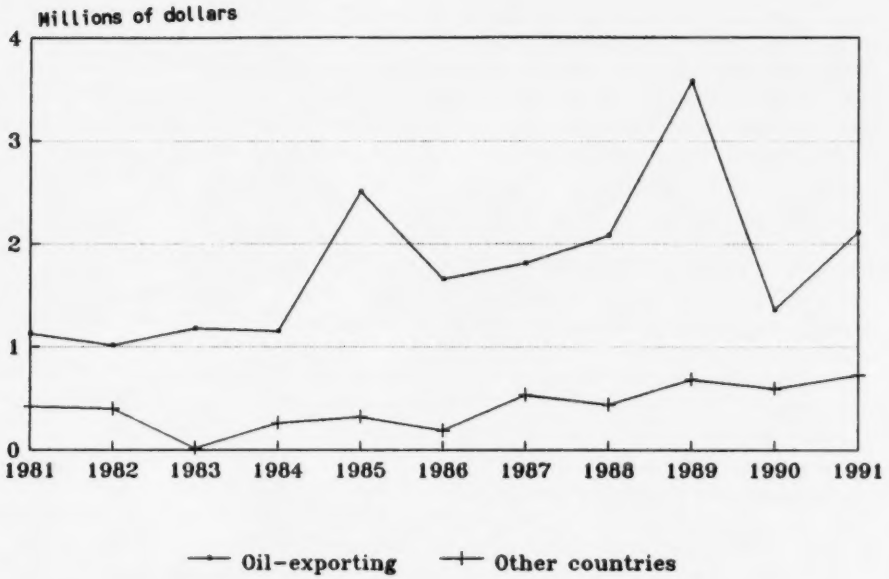
historically, the tendency has been to rationalize operations or to withdraw slowly. Similarly, rather small amounts of foreign direct investment from the Asian newly industrializing economies have been registered in the region. In the past few years, almost 100 Korean textile companies invested about $100 million in Central America to take advantage of the unused quotas of those countries in the United States market related to the Caribbean Basin Initiative. Taiwanese investors have also set up shops in the industrial parks bordering the Canal in Panama. 57/ It remains to be seen whether the revival of economic growth in the economies of the Latin American and Caribbean region, together with an improved macroeconomic environment and more open foreign-direct-investment frameworks, will significantly influence locational decisions by transnational corporations from Asia.

3. Africa

39. Investment inflows to Africa rose to $2.8 billion in 1991, an increase of 45 per cent from the level reached in 1990 (fig. VI). 58/ However, the level in 1991 was only slightly above the average level of inflows since 1985 of about $2.7 billion. The bulk of these investment flows is directed to oil-exporting countries, although the share of non-oil-producing countries has increased in recent years, reflecting the sizeable investment flows to Morocco. The presence of rich natural resources remains the principal locational advantage of Africa. The attractiveness of Africa continues to be negatively affected by slow economic growth, which remains well below the average for all developing countries. Hence, despite continued efforts to liberalize the regulatory framework for foreign direct investment and the introduction of "one-stop" centres in several countries, Africa has not succeeded in attracting sizeable investment flows. Some evidence of the increased outward investment activity on the part of transnational corporations from South Africa raises the question of the potential role of that country as a growth-pole for the southern African region.

40. Three quarters of all foreign direct investment in Africa in 1991 was directed to oil-exporting countries. Nevertheless, the average share of total investment flows to Africa accounted for by non-oil-producing countries increased from 17 per cent during the period 1986-1988 to 22 per cent during 1989-1991 (and the corresponding share of oil-exporting countries declined from 83 to 78 per cent). The increase in the share of the former reflects primarily a quadrupling of investment inflows to Morocco between these two time periods, attributed to domestic economic growth, combined with liberal foreign-direct-investment legislation and duty-free access to the European Community market of manufacturing goods produced in Morocco with a minimum of 40 per cent local content. 59/

Figure VI. Foreign-direct-investment flows to Africa, 1981-1991



Source: Department of Economic and Social Development, Transnational Corporations and Management Division, based on Transnational Corporations and Management Division, World Investment Directory 1992, vol. III. Africa (United Nations publication, forthcoming).

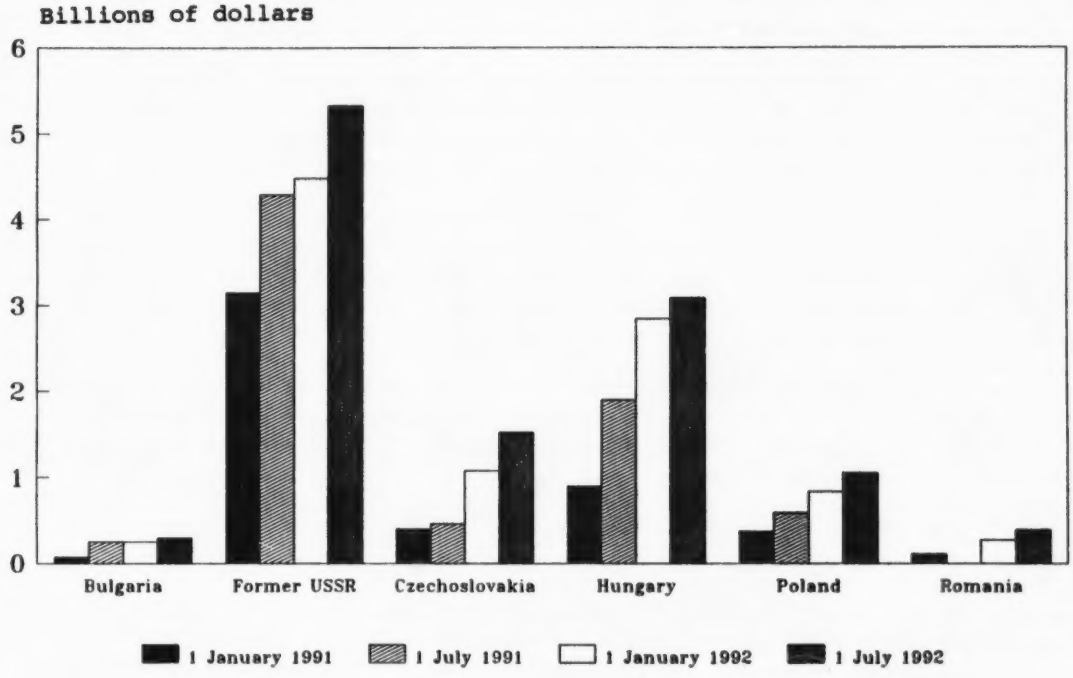
41. Foreign direct investment in natural resources continues to be an important locational advantage for many countries in sub-Saharan Africa. In 1991, for example, investment flows to Angola amounted to $670 million, which exceeded total cumulative investment flows received by that country between 1985 and 1990; most of these investments were in petroleum exploration and mineral mining. 60/ There is considerable potential for investment in oil exploration in sub-Saharan Africa. In order to exploit this potential, several countries are now offering more favourable contract terms to petroleum transnational corporations. Transnational corporations view investments in petroleum exploration and development as part of their strategy of global expansion in the face of growing demand for petroleum and oil products in Africa and other countries. 61/ Some countries have also encouraged foreign direct investment in the services sector with positive results; Mauritius, for example, has actively sought to attract foreign investors in banking and finance in recent years, aiming to become an offshore banking centre. Given the small size of the domestic markets of most countries in sub-Saharan Africa and low growth rates, investment flows to the manufacturing sector remain limited, despite continued liberalization of regulatory frameworks for foreign direct investment and the establishment of "one-stop" investment centres in several countries.

42. The increased investment outflows from South Africa in 1992, some of which may have been directed to the southern African region, could exert a positive impact on economic development in that region. 62/ It could be envisaged that investments from South Africa in member countries of the South African Development Coordination Conference and the Preferential Trade Area of Eastern and South African States, with which South Africa already has cooperation and trade agreements, could spur growth in a fashion similar to the role of Japanese investments in Asia. 63/ However, there are significant differences between the role of Japanese foreign direct investment in Asia and the potential role of South African foreign direct investment in the southern African region which make any straightforward comparisons difficult. For example, the principal locational advantage offered by the southern African countries is, with some exceptions, the availability of natural resources and cheap labour; but in both respects, South Africa itself is well endowed. The factors that prompted Japanese transnational corporations to invest in Asia in terms of the need to relocate labour-intensive manufacturing operations may not apply to transnational corporations from South Africa. Nevertheless, the possibility of increased interest of South African transnational corporations in the southern African region cannot be discounted, and this could have important implications for the growth and development of that region, once political relations are fully normalized.

C. Central and Eastern Europe

43. The number of foreign investment registrations and the amount of foreign capital committed in Central and Eastern Europe continued to grow in 1991 and the first half of 1992 (fig. VII), with Western Europe remaining the dominant source of investment. 64/ As a result, foreign direct investment in the region has increased as a proportion of worldwide foreign direct investment. However, it appears that - with the exception of the former Czechoslovakia and the Baltic republics - the pace of foreign direct investment in the region is

Figure VII. Cumulative foreign direct investment in Central and Eastern Europe, 1991-1992



Sources: Department of Economic and Social Development, Transnational Corporations and Management Division, based on Transnational Corporations and Management Division and Economic Commission for Europe, World Investment Directory 1992, vol. II. Central and Eastern Europe (United Nations publication, Sales No. E.93.II.A.1), and the Economic Commission for Europe.

slowing down, and its distribution is not even among the countries of the region. However, all countries of the region place considerable emphasis on the role of foreign direct investment in their transition from centrally planned to market-oriented economies, as witnessed, for example, by the enactment of liberal legislation with respect to foreign direct investment and privatization programmes open to foreign capital.

44. During the first half of 1992, the number of foreign investment registrations in the countries of Central and Eastern Europe (excluding the former Yugoslavia) increased by 50 per cent over the level of 1 January 1992, to reach a total of 46,668 registered foreign affiliates with an estimated $11.7 billion of capital committed as of 1 July 1992 (table 8). Western European investors accounted for the largest share of foreign direct investment in the region, particularly in Hungary, Romania, Poland and the former USSR. Within the former USSR, investment continues to be concentrated in the Russian Federation, but investments in Estonia, Latvia and Lithuania are also increasing. 65/ Despite the dominance of Western Europe as a source of foreign direct investment, the Russian Federation and, to a much lesser extent, Ukraine have become significant investors in the Baltic States and the other republics of the former USSR; in these cases, however, the joint venture agreements concluded typically involve old production relationships that preserve existing supplier and customer links. 66/ Since, in the former USSR, enterprises located in Russia were the principal foreign investors (to the extent that such investment took place), 67/ Russian enterprises are now also investors abroad, especially in Western Europe; and this investment seems to be increasing. 68/

45. While there has been an overall increase in terms of the number of foreign investment registrations and foreign capital committed in the region, there has been a disparity in the distribution of this investment among the countries of the region, reflecting differences in the speeds with which regulatory regimes for foreign direct investment are being liberalized, the rates of success of economic, institutional and political reforms, and fundamental locational advantages. The relatively advanced transformation process in countries such as the former Czechoslovakia, Hungary and Poland, combined with their geographical proximity to the European Community and their increasingly favourable access to the Western European market following the conclusion of association agreements with the European Community, have placed these countries at a more advantageous position to attract foreign direct investment, particularly investment geared towards the export of agricultural products, textiles, steel and chemicals. 69/ A differentiated pattern of foreign direct investment is also observable within the former Union of Soviet Socialist Republics, with the Asian republics lagging behind the European republics and, in particular, the Russian Federation. In fact, Hungary and the republics of the former USSR as a group have been the most successful in the region in terms of attracting foreign investment.· Together, they accounted for approximately 72 per cent of the total foreign capital commitments to the economies of Central and Eastern Europe (excluding the former Yugoslavia) and about 41 per cent of the total number of registered foreign affiliates.

Table 8. Cumulative number of foreign investment registrations in Central and Eastern Europe, by host country, 1 January 1992 and 1 July 1992

Host country	1 January 1992	1 July 1992
Bulgaria	900	1 800
Czechoslovakia (former)	4 000	4 800
Hungary	9 117	11 196
Poland	4 796	7 648
Romania	8 022	13 432
Union of Soviet Socialist Republics (former)	4 208	7 792
of which: Commonwealth of Independent States a/	2 593	4 632
Total	31 043	46 668

Sources: Department of Economic and Social Development, Transnational Corporations and Management Division, based on Transnational Corporations and Management Division and ECE, World Investment Directory 1992, vol. II. Central and Eastern Europe (United Nations publication, Sales No. E.93.II.A.1); Economic Commission for Europe database.

a/ Excluding Estonia, Latvia, Lithuania and Georgia.

46. Continuing political instability, lack of convertibility of currencies, rapid decline in domestic production and employment and the loss of traditional export markets are significant problems for an expanded role of transnational corporations in this region. Furthermore, frequent changes in the legal and regulatory framework have contributed to the uncertainties faced by investors. As a result, many countries of the region have not been able to attract large amounts of foreign direct investment. While the number of registrations of foreign affiliates has increased rapidly, the value of capital commitments has grown at a much slower pace. Hence, apart from some well-publicized cases of investments by large transnational corporations, investment projects in the region continue to be small- and medium-sized, ranging mostly from $45,000 to $1.5 million. 70/ Furthermore, while the recent political and economic reforms have increased the interest of foreign firms to invest, the volume of actual investments so far remains low in comparison to commitments, owing partly to the long lead time necessary to implement investment projects. It may also be an indication that some foreign investors hold back their investments in the face of continuing political and economic instability, or that the registered foreign investment projects merely serve as tax shelters or conduits to benefit from favourable tax treatment granted to foreign affiliates. 71/ By 1991, the ratio of operational to registered joint ventures was estimated to be 41 per cent in the case of Hungary and 35 per cent in the former USSR. 72/ By 1992, the ratio increased to 40 per cent in the former USSR, suggesting an increasing trend in the number of projects actually realized. 73/

47. In their transition from centrally planned to market-oriented economies, all countries of the region are placing considerable emphasis on foreign direct investment as a means of acquiring much needed capital, know-how and technology (including environmentally sound technology) and new export opportunities. For that purpose, all countries have enacted liberal legislation with respect to foreign direct investment, including privatization. Clearly, the privatization process in the countries of the region can benefit from the participation of transnational corporations, especially in light of the scarcity of new domestic investment capital and managerial skills.

48. Despite the small amount of actual foreign investments implemented and their small share of domestic investment activity, foreign affiliates - most of which are greenfield investments, largely in the form of joint ventures with domestic partners - have contributed to structural changes and economic transformation through stimulating the development of local entrepreneurship and the introduction of innovations in business practices. Joint ventures have been particularly instrumental in these respects. This is shown in the better record of sales, profits and foreign-currency earnings per employee of joint ventures in comparison to wholly domestically owned enterprises. 74/

49. The sectoral distribution of foreign direct investment in the region also provides evidence of the important role of transnational corporations in triggering structural changes. Manufacturing is the single largest sector of foreign investment activity in most countries of the region, particularly in high-technology industries (computer and computer-related technologies) and telecommunications, where local expertise is lacking. 75/ Although the other sectors of the economy so far have attracted relatively little foreign investment, several transnational corporations have expressed interest in exploring investment opportunities in petroleum exploration and exploitation in the former Union of Soviet Socialist Republics, which are expected to be a dominant source of foreign-currency earnings for the new republics. 76/ The tertiary sector has also been a significant area of investment by transnational corporations in the region, particularly in Hungary. Given that services were traditionally neglected in centrally planned economies, foreign direct investment in services and, in particular, business services, form an important and essential part of the contribution to the transition process. 77/

50. The important role of transnational corporations in the transition process is also seen in their concentration in export-oriented industries. This has helped to integrate the region more rapidly into the world economy and to increase the region's foreign exchange earnings. In Hungary, for example, by forming part of the regional network of their parent firms in which cross-border production processes at different points of the value-added chain are linked, foreign affiliates have played a significant part in the country's export performance, accounting for more than 16 per cent of non-rouble exports. 78/ Through regional corporate networks, host countries obtain access to marketing and distribution facilities, particularly in the Western European market, thereby enhancing the integration of these countries into the Western European trade and foreign-direct-investment cluster and providing an incentive for closer association with the European Community. The perception of the closer association with the European Community, including possible membership of these countries, in turn serves as a stimulus for investment by

transnational corporations that are motivated by long-term strategic considerations. 79/

51. The importance of the region as part of a regional core-network strategy of transnational corporations and its potential role as a region for domestic market-oriented investment is reflected in the continuing growth of foreign-direct-investment inflows, despite the recession in the developed home countries and the deteriorating economic situation in host countries. However, the slower pace of investment growth is a matter of concern for the countries of the region, as is the gap between the number of committed and operational joint ventures, since it implies that the urgently needed inflow of foreign capital required to assist in the transition process is not forthcoming. 80/ Hence, while the countries of Central and Eastern Europe look to foreign direct investment to play a major role in their macroeconomic stabilization and the micro-economic, technological and financial transformation of their economies, transnational corporations appear to view stabilization and transformation as preconditions for major investment. The resolution of the dilemma poses a major challenge for the countries of the region.

III. SUMMARY AND CONCLUSIONS

52. Despite the decline in the world-wide flows of foreign direct investment in 1991 and of inflows to the developed countries, the inflows to all regions of the developing world increased in absolute and relative terms. This significant feature of foreign-direct-investment flows in 1991 may be attributed, on the one hand, to continued economic uncertainty in the developed countries, and on the other hand, the maintenance or resurgence of strong economic performance in a wide spectrum of developing countries in Asia and Latin America, their control of vital natural resources in Africa and their continuing efforts to liberalize and privatize. The general trend towards liberalization and privatization has also been evident in the region of Central and Eastern Europe whose level of inflows continued to grow, largely in response to long-term corporate strategies adopted in light of expectations of future growth in the region. Privatization has expanded the range of profitable investment opportunities for transnational corporations in both Latin America and Central and Eastern Europe.

53. The decline in world-wide flows of foreign direct investment in 1991 represents the first downturn since 1982 and occurred largely because of recessionary conditions in major industrialized countries and structural weaknesses in the financial systems in a number of countries which rendered finance capital for foreign direct investments more difficult to obtain or available only at increased costs. These factors made transnational corporations maintain a cautious stance and to concentrate on improving efficiency of existing investments, rather than adding to capacity or undertaking new investments. The decline in world-wide flows of foreign direct investment in 1991 is seen in the major decrease in outflows from Japan and, to a lesser extent, Western Europe, and also in the much slower pace of mergers and acquisitions as a mode of foreign-direct-investment activity in the early 1990s in response to the changing macroeconomic conditions and corporate strategies.

54. The slow-down of economic activity and the declining profitability of investments since 1980s is reflected in the lower share of reinvested earnings in foreign-direct-investment outflows of the major home countries. In terms of inflows, however, reinvested earnings still constitute a significant component of foreign direct investment in developing countries which points to the greater relevance of domestically raised capital as a component of foreign direct investment in these countries, unlike in the developed countries where foreign direct investment is financed more from external sources.

55. Despite the decline in flows in 1991, however, the importance of the activities of transnational corporations in the world economy continued to increase as net additions to the world-wide stock of foreign direct investment and their pace of growth have been faster relative to exports, domestic output and domestic investment.

56. A key issue that needs to be addressed is whether the increasing importance of developing countries and Central and Eastern Europe as recipients of foreign direct investment, both in absolute and relative terms, is likely to be sustained. The answer is dependent on the outcome of crucial determinants over the longer term. On the one hand, the expectations for an upturn in economic growth rates may prompt transnational corporations to re-focus their activities in the developed countries, where they already have large stocks of accumulated foreign direct investment. On the other hand, the prospects of improved locational advantages in other parts of the world - such as the improvement of the political and economic situation, coupled with the availability of lower-cost skilled labour, in Central and Eastern Europe, and the continuing trend towards liberalization and privatization - may accelerate investment inflows into those regions. Moreover, if economic performance is further strengthened in the Latin America and Caribbean region, and if countries in the Asia and the Pacific region sustain their growth, developing countries as a group may increase their attractiveness for foreign direct investment. On balance, it is hard to predict whether these regions can sustain their increasing share of foreign direct investment, but in all likelihood the absolute level of flows will continue to increase through the 1990s.

57. A related question is whether the downturn in investment flows in 1991 foreshadows a permanent reduction or deceleration in foreign-direct-investment flows over the 1990s - an issue addressed in another report before the Commission (E/C.10/1992/3). The expectations are that, although there will always be cyclical oscillations, several structural changes in the world economy, in combination with a number of anticipated policy-related changes, are likely to contribute to an upward trend in foreign-direct-investment flows during the 1990s.

Notes

1/ A survey undertaken by Japan's Export-Import Bank of 115 major Japanese companies indicated that, although they would direct the biggest single share (26 per cent) of their foreign investment to the European Community between early 1992 and March 1994, the member countries of the Association of South East Asian Nations come close behind. Asia plus Oceania will absorb half of the total. See Anthony Rowley, "Japan looks closer to home", Far Eastern Economic Review (16 January 1992), p. 40; and David Dodwell, "Trade surplus likely to fuel Japanese investment in the Pacific", Financial Times (3 December 1991).

2/ See Transnational Corporations from Developing Countries: Impact on Their Home Countries (United Nations publication, forthcoming). A significant proportion of foreign direct investment by developing countries may not represent genuine investment - that is, transfer of capital, skills, know-how and control. For example, more than one third of foreign direct investment by developing countries originates from offshore investment sites and tax havens such as Bermuda, the Cayman Islands, Liberia, the Netherlands Antilles and Panama. The exclusion of these countries reduces the outward investment stock of developing countries to $80 billion in the late 1980s. Foreign direct investment by several oil-exporting countries may also not fall under the definition of transnational corporate activity.

3/ Ibid.

4/ In SDR terms, the rate of annual growth of world-wide outflows, gross domestic product, gross domestic investment, exports, sales, royalty-and-fees receipts during the period 1986-1990 were 7 per cent, 6 per cent, 7 per cent, 3 per cent, 12 per cent and 18 per cent, respectively. Hence, world-wide outflows grew more than twice as fast as world-wide exports and kept pace with world-wide gross domestic product and gross domestic investment. However, the rate of annual growth of royalties-and-fees receipts was almost three times as fast as that of world-wide outflows. However, world-wide sales of transnational corporations grew twice as fast as world-wide gross domestic product and gross domestic investment and four times faster than world-wide exports.

5/ See Organization for Economic Cooperation and Development, OECD Economic Outlook (Paris, various issues), table on rates of return on capital in the business sector.

6/ It may be presumed that, in the developed countries, profits earned from foreign-direct-investment activities in one country or area may be used to finance foreign direct investment in another country or area. This may also hold true of the other components of foreign direct investment, equity capital and short- and long-term capital.

7/ Profit rates are defined here as the share of net income to total income. See United States, Department of Commerce, United States Direct Investment Abroad: Operations of US Parent Companies and their Foreign Affiliates (Washington, D.C., Government Printing Office, September 1992).

Notes (continued)

8/ For a full analysis of foreign-direct-investment trends in the developed countries, including developments related to the legal framework, see World Investment Directory 1993, vol. III. Developed Countries (United Nations publication, forthcoming).

9/ To take the United States as an example, take-over activities completed in 1991 amounted to $116.7 billion, representing a decline from $169.4 billion in 1990 and the $263.8 billion record in 1988. Where large-scale takeovers are undertaken, they tend to be largely domestic. See Martin Dickson, "Mergers and acquisitions: steady stream of smaller deals", Financial Times (11 June 1992).

10/ The value of foreign takeovers by the largest 50 French firms declined by 24 per cent, to 80 billion French francs by 1991, putting an end to four years of straight growth. See William Dawkins, "Exports revival", Financial Times (22 June 1992).

11/ International Cooperation Agreements and International Mergers and Acquisitions in the 1980s (United Nations publication, forthcoming).

12/ "Japanese capital flows: inward bound", The Economist (8 February 1992); "Japan's direct investment slows", The Wall Street Journal (8 June 1992).

13/ John Rutter, "Recent trends in international direct investment" (Washington, D.C., International Trade Administration, United States Department of Commerce, August 1992), mimeo.

14/ Frances Williams, "A paragon is humiliated", Financial Times Survey (7 May 1992).

15/ John Rutter, "Recent trends in international direct investment" (Washington, D.C., International Trade Administration, United States Department of Commerce, August 1992), mimeo.

16/ The United States affiliates of Japanese companies are cautious about investment in plant and equipment and long-term plans, because of low profitability. Sixty-three per cent of 264 Japanese affiliates in the United States cited earnings as their biggest concern, and half plan no change in future capital spending change; 19 per cent plan cuts. See James Sterngold, "Japanese shifting their investments back toward home", The New York Times (22 March 1992), and "Japanese wary on U.S. operations", The Wall Street Journal (9 June 1992).

17/ See Lionel Barber, "Big stake in EC's future", Financial Times Survey: Japan and The European Community (13 November 1992); Michiyo Nakamoto, "Investment in manufacturing: time for rigorous assessment", Financial Times Survey (7 May 1992); Daniel Green, "Fears over long-term impact", Financial Times Survey.

Notes (continued)

18/ Some examples of new alliances are those established between Renault, once a symbol of French State industry, and Volvo, the Swedish car maker; the stakes taken in Bull, the State-owned computer group, by Nippon Electric Corporation of Japan and International Business Machines (IBM) of the United States, and the share swap being negotiated between Banque Nationale de Paris and Dresdner Bank of Germany. See William Dawkins, "Revising the borders", Financial Times (22 June 1992).

19/ Privatization has been placed at the top of the agenda in Italy. See Robert Graham, "The Italian auction begins", Financial Times (20 July 1992); Heig Simonian, "Privatisation encounters barriers", Financial Times (7 July 1992); Tim Carrington, "Italy braces for privatization measures", The Wall Street Journal (12 June 1992).

20/ For example, the slow pace in which the privatization programme has been implemented in Greece in the past has resulted in limited investments by foreign entities. The exception was Heracles General Cement, Europe's biggest cement exporter, sold for 124 billion drachmas to a joint venture between Calcestruzzi (52.5 per cent), the construction arm of Italy's Feruzzi group, and the National Bank of Greece. In addition, although the Government of Portugal has pursued an ambitious programme of economic liberalization and privatization (with the dismantling of State monopolies and the liberalization of financial markets), the State continues to play a dominant role in the economy. Foreign control of privatized companies is not generally authorized, while foreign participation must be limited to 40 per cent of the voting capital. Hence, in all but two privatizations, foreign participation has been limited to between 2 and 35 per cent. See Kerin Hope, "Privatisation: quickening pace of sales", Financial Times (15 June 1992), and Andrew Jack, "Privatisation: the state prevails", Financial Times (4 March 1992).

21/ The number of Swedes employed by foreign companies has also tripled. An estimated 135 Swedish companies, employing 40,000 workers, were bought by foreign concerns since the late 1980s.

22/ Robert Taylor, "Sweden to launch strategy to attract foreign investors", Financial Times (18 February 1992).

23/ For example, in Spain, the path to convergence with leading European Community economies and the Government's determination to be a founding member of European economic and monetary union could result in the elimination of such obstacles to growth of foreign investment as the dismantling of the monopoly in the pharmaceutical industry, the end of protection in various service industries and the discontinuation of all other forms of capital control and investment obstacles that confront foreigners. See Peter Bruce, "Comes the reckoning", Financial Times Survey (1 June 1992), and Peter Bruce, "The strain and pain in Spain", Financial Times (27 May 1992).

24/ See World Bank, World Bank Debt Tables 1992-93, vol. I. Analysis and Summary Tables (Washington, D.C., 1992).

Notes (continued)

25/ See From the Common Market to EC92: Regional Economic Integration in the European Community and Transnational Corporations (United Nations publication, Sales No. E.93.II.A.2); Regional Economic Integration and Transnational Corporations in the 1990s: Europe 1992, North America and Developing Countries (United Nations publication, Sales No. E.90.II.A.14).

26/ Of 18 cases of foreign direct investment by companies engaged in the production of automobiles, engineering products, chemicals and pharmaceuticals, only three cases were concerned with exporting from the domestic market, and in only one was the investment motivated by exports to the European Community (and Latin America). For 17 of the 18 cases, the main objective for foreign direct investment was import-substituting, made in response to the imposition of high tariffs and import quotas. See P. J. Buckley and P. Artisien, "Policy issues of intra-EC direct investment, British, French and German multinationals in Greece, Portugal and Spain with special reference to employment effects", in Multinationals and the European Community, John H. Dunning and P. Robson, eds., (Oxford, Blackwell, 1987).

27/ Even export-oriented foreign direct investment in developing countries that could have been negatively affected by the single European market, owing to possible investment diversion to the southern members of the European Community (Greece, Portugal and Spain), did not suffer because of the rising costs of labour and stricter pollution standards in the latter. See Jamuna Prasad Agarwal, "Effect of EC92 on foreign direct investment in developing countries", Transnational Corporations, vol. II (United Nations publication, forthcoming).

28/ However, although the overall effect of the single market is very small, its particular effect on countries like Cyprus, Malta, Mauritius and Tunisia is almost certainly substantial. See United Nations, Department of Economic and Social Development, Transnational Corporations and Management Division, From the Common Market to EC92: Regional Economic Integration in the European Community and Transnational Corporations, (United Nations publication, Sales No. E.93.II.A.2); Vincent Cable, "1992 and its implications for developing countries" (London, Commonwealth Secretariat, 1988), mimeo.

29/ See From the Common Market to EC92: Regional Economic Integration in the European Community and Transnational Corporations (United Nations publication, Sales No. E.93.II.A.2).

30/ For a full analysis of foreign-direct-investment trends in Asia and the Pacific, including developments related to the legal framework, see World Investment Directory 1992, vol. I. Asia and the Pacific (United Nations publication, Sales No. E.92.II.A.11); and Transnational Corporations and Management Division foreign-direct-investment database.

31/ "Japanese prepare for the Vietnam gold rush", The Wall Street Journal (21 February 1992). As of 31 August 1992, Taiwan Province of China was the largest foreign investor in Viet Nam. See Alexander Nicoll, "Vietnam looks for gains from US election", Financial Times (3 November 1992), and Victor Mallet, "Cambodians rush headlong to market", Financial Times (28 November 1991).

Notes (continued)

32/ Consulate General of India, unpublished data. See also "Foreign investment: more, but still not enough", Financial Times (26 June 1992).

33/ Foreign direct investment on a contract basis differs from investment actually made. In 1991, for example, foreign direct investment totalling $4.4 billion was actually made from the $12 billion contracted.

34/ James McGregor, "Foreign firms in China are preparing for expected consumer spending surge", The Asian Wall Street Journal Weekly (23 March 1992); Robert Thomson, "Honda announced first motorcycle venture in China", Financial Times (27 May 1992).

35/ It should also be noted that investment inflows did not decline after the Tiananmen Square incident in 1989, which might suggest that these investments would have increased sooner, were it not for the incident.

36/ Michiyo Nakamoto, "Motorola builds semiconductor plant in China", Financial Times (19 May 1992).

37/ "Bank Negara signals shift in foreign investment focus", East Asian Executive Reports (May 1992), pp. 13-14; Jon Liden, "Foreign investment: a more selective approach", Euromoney (Malaysia supplement) (August 1992), pp. 51-53, 56-57.

38/ "Japanese investment in Asia: the second wave", The Economist (7 November 1992), pp. 87-88.

39/ These would not be reflected in foreign-direct-investment data compiled for the balance of payments.

40/ Investment outflows on an approval basis show an increase between 1991 and 1992 of 7 per cent. See Ministry of Economic Affairs, Investment Commission, "Statistics on overseas Chinese and foreign investment, technical cooperation, outward investment, outward technical cooperation" (August 1992).

41/ Korea has also sparked the development of a sports-shoe industry that employs 30,000 locals in Indonesia. See Urban C. Lehner, "With Japan's backing, Indonesia gains a larger role in regional economy", The Wall Street Journal (10 January 1992).

42/ "Thai group invests $1 billion in China", Financial Times (7/8 November 1992). Thai firms have also begun to invest in Laos and other countries in the region.

43/ For a full analysis of foreign-direct-investment trends in Latin America and the Caribbean, including developments related to the legal framework, see World Investment Directory 1992, vol. IV. Latin America and the Caribbean (United Nations publication, forthcoming).

44/ Pedro Aspe, Andres Bianchi and Domingo Cavallo, Sea Changes in Latin America (Washington, D.C., Group of Thirty, 1992).

Notes (continued)

45/ Michael Mortimore and Torben Huss, "Industrial modernization in Mexico: results of a questionnaire administered to the largest foreign-owned companies in the manufacturing sector during May/June 1990" (Santiago, Economic Commission for Latin America and the Caribbean, 12 November 1991); Wilson N. Perez, Foreign Direct Investment and Industrial Development in Mexico (Paris, OECD Development Centre, 1990); Foreign Direct Investment and Industrial Restructuring in Mexico (United Nations publication, Sales No. E.92.II.A.9); Kurt Unger, Las Exportaciones Mexicanas ante la reestructuración Industrial Internacional (Mexico, El Colegio de Mexico/Fondo de Cultura Económica, 1990); Mauricio de Maria y Campo, "Reestructuración y desarrollo de la industria automotriz mexicana en los años ochenta: evolución y perspectivas", Estudios e Informes de la CEPAL, No. 83 (Santiago, Chile, 1992), and Secretaria de Comercio y Fomento Industrial, UNCTAD and UNDP, Mexico: Una Economia de Servicios (UNCTAD/ITP/58).

46/ Roberto Behrens, "Inversion extranjera y empresas transnacionales en la economía chilena: el papel del capital extranjero y la estratégia nacional de desarrollo", Estudios e Informes de la CEPAL, No. 86 (Santiago, Chile, 1992); Patricio Rozas, "Inversion extranjera y empresas transnacionales en la economía de Chile: proyestos de inversión y estratégias de las empresas transnacionales", Estudios e Informes de la CEPAL, No. 85 (Santiago, Chile, 1992); and Ricardo Ffrnech-Davis, Patricio Leiva and Roberto Madrid, "La apertura comercial en Chile", Estudios de política comercial, No. 1 (New York, UNCTAD, 1991).

47/ See, among others, Alejandra Herrera, "La privatización de la telefonia argentina", Revista de la CEPAL, No. 47 (August 1992), pp. 163-176.

48/ Ricardo Bielschowsky, "Transnational corporations and industrial modernization in Brazil: results of a questionnaire administered to the largest foreign-owned companies in the manufacturing sector during November 1991/January 1992" (Santiago, Chile, ECLAC, 14 September 1992), mimeo; and Wilson Fritsch and Gustavo Franco, Foreign Direct Investment in Brazil: Its Impact on Industrial Restructuring (Paris, OECD Development Centre, 1991).

49/ Michael Mortimore, "Debt-equity conversion", CEPAL Review, No. 44 (August 1991), pp. 79-96; Debt-Equity Swaps and Development (United Nations publication, forthcoming).

50/ In the case of Chile, this process began several years earlier.

51/ Maurice Odle, "Foreign investment as part of the privatisation process", Transnational Corporations, vol. II (United Nations publication, forthcoming).

52/ United States, International Trade Commission, The Likely Impact on the United States of a Free Trade Agreement with Mexico (Washington, D.C., USITC Publication 2353, February 1991), p. viii; and Refik Erzan and Alexander Yeats, "Free trade agreements with the United States: what's in it for Latin America?", World Bank Policy Research Working Papers, No. 827 (Washington, D.C., January 1992).

Notes (continued)

53/ See preceding section.

54/ Data do not include outflows from Mexico which are not available.

55/ See World Investment Directory 1992, vol. IV. Latin America and the Caribbean (United Nations publication, forthcoming).

56/ Calculated from Ministry of International Trade and Industry, 1982 Benchmark Survey on Japanese Companies' Foreign Activities: Compendium on Foreign Activity Data (Tokyo, Toyo Keizai, 1986); and 1990 Benchmark Survey on Japanese Companies' Foreign Activities: Compendium on Foreign Activity Data (Tokyo, Toyo Keizai, 1992).

57/ See "Asian tigers leap into Central America", Business Latin America (16 December 1991), pp. 401-402; and "Bienvenidos, invasores", America Economia, No. 65 (September 1992), p. 77.

58/ For a full analysis of foreign-direct-investment trends in Africa, including developments related to the legal framework, see World Investment Directory 1992, vol. V. Africa and Western Asia (United Nations publication, forthcoming).

59/ Claude Clement, "U.S. and Morocco expand commercial ties: Morocco gives priority to tourism development", Business America, 112 (4 November 1991), pp. 2-8; and "Morocco's investment rules", Middle East Executive Reports, 113 (November 1990), pp. 16-21.

60/ Caroline Southey, "The oil industry: key to Angola's survival since independence", Financial Times (12 May 1992); Michael Griffin, "Angola-peace opens up new prospects for investment", Multinational Business, No. 3 (Autumn 1991), pp. 30-36; "Industry poised to boost production on Angola/Cabinda acreage", Oil and Gas Journal, 90 (10 February 1992), pp. 36-37. A record level of petroleum exploration activity in Angola was recorded in 1991. Several transnational petroleum corporations (e.g., Chevron, Elf, Texaco, Petrofina and Agip) have been active in the country.

61/ Martin Quinlan, "Energy finance: Africa woos the energy giants", Euromoney, Energy Finance Supplement (June-July 1990), pp. 63-64.

62/ Philip Gawith, "South Africa investment up - but so are the outflows", Financial Times (26 November 1992); and Patti Waldmeir, "Pretoria acts on exchange control curbs", Financial Times (1 December 1992). Some of the South African transnational corporations that have recently invested abroad include Sappi, Mondi and First National Bank. There is also a proposed takeover of Del Monte Foods International by the Royal Group and Anglo American.

63/ See also Stephen Vascianne, "The PTA Charter on Multinational Industrial Enterprises", Transnational Corporations, 1 (August 1992), pp. 97-110.

Notes (continued)

64/ For a full analysis of foreign-direct-investment trends in Central and Eastern Europe, including developments related to the legal framework, see World Investment Directory 1992, vol. II. Central and Eastern Europe (United Nations publication, Sales No. E.93.II.A.1).

65/ See World Bank, Foreign Direct Investment in the States of the Former USSR (Washington, D.C., 1992).

66/ Ibid., p. 20. According to the national statistics of Latvia and Lithuania, the Russian Federation's share of registered foreign affiliates was 32 per cent in both countries. The share of registered foreign affiliates of corporations headquartered in Ukraine was 4 per cent in Lithuania and 3 per cent in Latvia.

67/ See The East-West Business Directory 1991-1992 (United Nations publication, Sales No. E.92.II.A.20).

68/ For example, a Moscow-based firm recently purchased part of the German company United Cellulose Works of Pirna (Saxony). See German Information Center, "First Russian firm buys Eastern German company", The Week in Germany (16 October 1992), p. 5.

69/ The flow of foreign direct investment to the former Czechoslovakia will probably be affected by the break-up of the country. According to the Czech Republic Industry Minister, approximately 20 per cent of foreign firms had cancelled ongoing negotiations with Czech firms and about 40 per cent had put talks on hold because of the political uncertainties (see Bureau of National Affairs, Eastern Europe Reporter, 2 (20 July 1992), p. 592). The agreement on the dissolution of the country concluded on 20 July 1992 stipulates, however, that the two States will maintain close cooperation in foreign policy, defence and trade, including the creation of a free-trade zone ensuring the free flow of labour and capital. At present, Slovakia has received less than 20 per cent of total foreign direct investment in the former Czechoslovakia (see Bureau of National Affairs, Eastern Europe Reporter, 2 (3 August 1992), p. 650).

70/ For example, in terms of capital committed, Volkswagen AG is investing $6.6 billion in the former Czechoslovakia, Fiat is investing $2 billion in Poland, Chevron invested $2 billion in Kazakhstan, General Motors is investing $289 million in Hungary and Pilkington is investing $140 million in Poland. See World Investment Directory 1992, vol. II. Central and Eastern Europe (United Nations publication, forthcoming), as well as Wall Street Journal (19 February 1992).

71/ Ibid.

72/ See Katherin Marton, "Foreign direct investment in Hungary", Transnational Corporations, 1 (January 1993); World Bank, Foreign Direct Investment in the States of the Former USSR (Washington, D.C., 1992).

Notes (continued)

73/ See World Bank, Foreign Direct Investment in the States of the Former USSR (Washington, D.C., 1992).

74/ See Nicolas Denton, "A kiss of life from across the border", Financial Times (4 December 1992).

75/ See, for example, John Murray Brown, "Turkey gets Central Asia on the phone", Financial Times (4 December 1992).

76/ See Leyla Boulton, "The lure of oil's final frontier", Financial Times (6 March 1992).

77/ See, for example, Paul Betts and Leyla Boulton, "With western help, a wing a prayer", Financial Times (10 April 1992).

78/ Marton, loc. cit.

79/ For example, the global rivalry between Coca-Cola and Pepsi-Cola and between Ford and General Motors seems to have been carried over into the Hungarian market. See Bureau of National Affairs, Eastern Europe Reporter, Special Report: Hungary, 2 (20 July 1992), pp. 613-616.

80/ The capital needed for privatizations in Latin America, South-east Asia and Central and Eastern Europe has recently been estimated at $500 billion. A similar amount is required for the former Soviet Union. See William B. Rhodes, Vice-Chairperson of CitiBank, in The Economist (12 September 1992), p. 21.